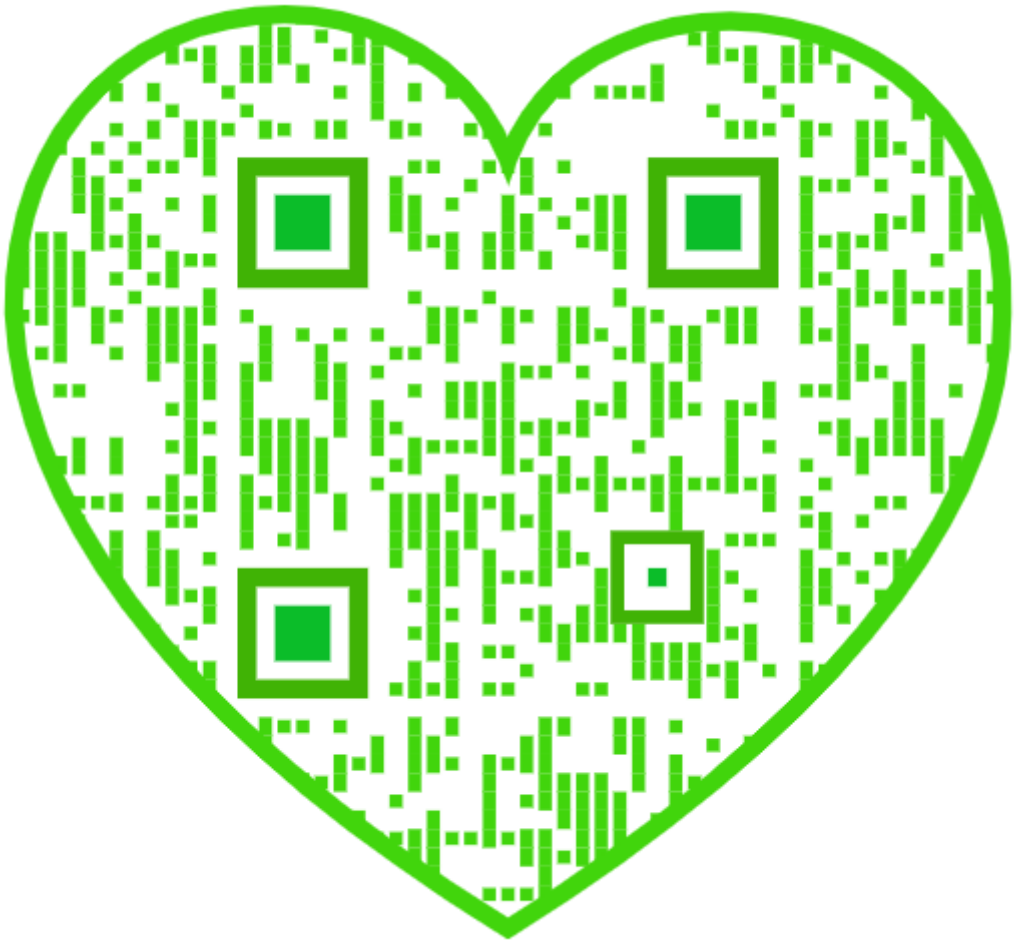

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THE STATE AS MANUFACTURER AND TRADER

THE STATE AS MANUFACTURER AND TRADER

An Examination based on the Commercial Industrial and Fiscal Results obtained from Government Tobacco Monopolies

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CHAPTER I

Introduction: With a Survey of State and Municipal Undertakings

1. PREFATORY STATEMENT

The subject-matter of these pages is confined to an examination of the financial and industrial results obtained from the production and sale of tobacco under government auspices in various countries. Although the information it has been possible to assemble refers specially to a particular branch of industry, it may also serve a purpose in putting to the test some of the claims broadly advanced in favour of the Collectivist contention that government control is a necessary and beneficial substitute for private enterprise. Evidence is seldom produced in favour of the contention; too often it is simply taken for granted that because here and there throughout the world responsible governments have entered into business as producers and merchants, the mere existence of such activities proves the possibilities of Collectivism and provides a good reason for further steps in the same direction.

Abstract discussion would be more satisfactory if facts were available demonstrating how government business management works in practice, and this investigation is intended to supply information of that nature. It is not proposed to devote any space to the criticism of theories, except in so far

as it is necessary here to attempt an explanation of what we mean by Collectivism, and justify the treating of State tobacco monopolies as peculiarly appropriate illustrations of the practical application of Collectivist doctrines.

Governments engage in numerous public undertakings which admittedly are not concerned with the primary and essential functions of government —legislation, administration of the laws, the protection of the liberty of the citizen, and the collection of public revenues by taxation. But from an analysis of these undertakings it should be apparent that the great majority have no necessary connection with Collectivism and in fact neither lend support to, nor deny the validity of, any specific theory of the limits within which government activity should be bound. Of all the familiar examples of public enterprises it will be found that there are very few which can be placed in a group by themselves for special consideration as distinctly Collectivist experiments.

2. COLLECTIVIST AIMS

The idea underlying Collectivism is the abolition of competition and the consequent nationalization or municipalization of industry under State or municipal monopoly. It is not merely that governments should be permitted to trade as manufacturers or merchants, but that they should be obliged to do so, using their legislative power to convert at least all large businesses into government concerns. How the transition from private to public ownership on such a huge scale would or could be effected, and what compensation should be paid or where the money for expropriation would come from, are matters about which little is said

in the literature on the subject. The difficulty is not overcome by maintaining that the process would be carried out, not at once, but in stages; since the cost of each achievement would magnify the obstacles attending the nationalization of the next industry selected for government control, and public funds would be fully pledged long before the complete Collectivist State had been established.

Nor is there any consensus of opinion as to the way in which publicly-controlled concerns should operate financially. The general principle insisted upon in Collectivist writings is that 'production should be for use, not profit', a rule of conduct which ignores all human motives and incentives; but if it could be observed it should apply equally to public as to all other enterprise. Sometimes the Collectivist is emphatic on the point and accepts the position that profits from publicly-controlled concerns are not a just source of public revenues, but are a disguised form of indirect taxation—which is perfectly true. But as it is also contended that it is only by the nationalization of industry that what is called 'surplus value' can revert to the community, the finance of Collectivism is still an unsolved problem. Manifestly, State or municipal enterprises cannot at the same time perform both functions: to be a fruitful source of public revenues, and to provide goods and services at cost. The former would mean a vicious system of taxation imposed on the consumer; the latter would leave the State Treasury penniless. This dilemma of the Collectivists is forced upon us in every discussion of the question, whether it is concerned with nationalization in general or with the public control of any one industry or enterprise in particular.

3. NATURAL MONOPOLIES

Apart from the Post Office and the coinage, which are monopolies established by law, and the maintenance of roads, streets, open spaces, &c., under public authority, central and local governments have undertaken responsibilities in departments of a special character. In many countries the railways have been nationalized; the public control of the sewage is almost universal; and frequently the supply of water, gas, electricity, and the running of tramways are entrusted to the local municipality.

To recognize the existence of such activities is not to make concessions to Collectivist contentions. Public services of this nature form a separate class and are to be distinguished from the manufacture of goods in common demand and the management of trades and industries where free bargaining can best determine price and quality.

Competition, on the other hand, between local gas, water, or electricity supplies, or between tramways on rails along public streets, is impossible without chaos and grave public inconvenience; as a consequence such services develop into monopolies without there having been any conscious effort to establish them. In the same way a distinct monopoly attaches to means of transport by railway or canal from place to place. These services may therefore be called *natural monopolies*; and any existing public control over them is no argument for the arbitrary extension of government direction over other enterprises, where such direction can only be ordained by an Act of Parliament specially creating monopoly privileges and making illegal the exercise of free competition.

Moreover, although a natural monopoly attaches by their special character to the public services above mentioned, it does not follow that the governing authority requires to assume the function of capitalist and employer of labour in regard to them, and engage in the business of control and management. True, that is sometimes done, even in the absence of proof that action was necessary in the public interest—which could only arise if the monopoly was making arbitrary use of its powers and was menacing rather than serving the community. But when that excuse for interference can be advanced, and if it be granted that natural monopolies require special supervision, there are other ways of meeting the case than actual nationalization or municipalization. Legislation might limit the rates charged for the service; or the value of the roadbed or wayleave might be assessed, like other subjects, to the taxes. Methods of this kind are in force in the United Kingdom with regard to railways and other public services,[1] and in the United States with regard to what are called public franchises; and according to the measure of their application the community could by these means get as much benefit from the undertaking as if it were under direct municipal management, while those who operated it would enjoy no more than a fair return for their active share in the business. There is a further alternative in the retention or acquisition as public property of the wayleave or privilege on which any such monopoly is based, and the leasing to private enter-

[1] *Cf.* for example the law governing gas companies in London, stipulating that prices and dividends shall vary inversely with one another, the London County Council having power to fix the quality of the gas.

prise of the right to operate.[1] Under such an arrangement, with due safeguards against depreciation of the property and suitable precautions to secure reasonable fares or prices, there is no reason why the service could not be performed with perfect satisfaction to all concerned. And any of these alternatives, by excluding direct public management, would have the incidental advantage of simplifying the problems of government and preventing the petty acts of officialdom from becoming a dominant issue in the discussion of public affairs to the neglect of more important public questions.

4. VOLUNTARY GOVERNMENT ENTERPRISE

There are other forms of government activity in business or trade often welcomed by Collectivists, though not without much confusion of thought, as marking an advance toward their ideal. Governments, for instance, often control in the common interest such national and natural resources (land, forests, mines, and water-power) as have not been alienated from public ownership; they sometimes produce goods for their own requirements in public departments; they provide many public benefits and amenities free of charge to the immediate user; and they frequently enter the competitive market as suppliers of various goods and services.

The confusion we speak of is to associate public action of this kind with theories of social economy which require as an essential condition the exclusion of private effort and the prohibition against private individuals using their property and their faculties to their own advantage. Clearly that principle

[1] *Cf.* the State railways in Holland, and tramways in Devonport, Edinburgh and eleven other British municipalities. A list is given in the *Municipal Year Book.*

of Collectivism is not involved here. All that the government does in these cases is to act as an association of individuals administering its own property without having any right to interfere with others, and if it trades or manufactures it must take its chances of success in the open market. The principle of Collectivism is introduced when the government goes beyond purely voluntary effort and, under legal powers enforced by fines and penalties, arbitrarily declares it a misdemeanour for any one to trade or sell in competition with the public authority. And that the State or municipality has reason to dread competition is shown in the steps almost invariably taken to frame monopolistic legislation immediately a revenue-producing public enterprise is proposed.

5. MUNICIPAL ENTERPRISE FOR CHARITY

If, on the other hand, the municipal goods or services are provided below cost to those who are in need, the enterprise is merely a form of public benevolence subsidizing one section of the community at the expense of the rest. It is significant that the great majority of the concerns run by government, and especially by local authorities where they take any part at all in trade or industry, are of this latter description. They range from the building and upkeep of workhouses to the supply of municipal milk and meat and the provision of model lodgings and public pawnshops, and occupy by far the greater part of the familiar catalogues of Collectivist experiments.[1] Most of

[1] Cf. *The Collectivist State in the Making*, by Emil Davies, and the Report of the Fabian Research Department on State and Municipal Enterprise, printed as a Special Supplement to the *New Statesman*, May 8, 1915.

the examples of this so-called progress are taken from the continent of Europe, where they are generally to be found and where in any case economic dependence on the help of the State is an ingrained habit; but as they are almost universally called into existence by pauperism, rather encouraging than mitigating the evil, it is hardly convincing to cite them as steps toward an ideal constitution of human society.

6. THE LIMITS TO PUBLIC CONTROL

What sanction there is for special public control over industry can only be found in respect of the *natural monopolies* already discussed; but, as we have stated, it does not follow that even in that field the governing authority need run public services itself. Moreover, if direct public management, instead of control alone, is called for, it can only be justified on the condition (often difficult to enforce) that the service will be conducted more cheaply, more efficiently, and with greater benefit to those who use it than private enterprise could in the circumstances be expected to operate it. The aim of public management should in effect be to make the service a ' public utility ' in the real sense of the term, providing a convenience that will assist the citizen in the ordinary affairs of life. It should *complement* and not *supplant* private enterprise; it should not be subsidized at the expense of the revenues, and it certainly should not be a disguised form of taxation. Rates and charges should be no more than sufficient to cover the expenditures, including the interest and charges on capital invested. When that rule is departed from and the public monopoly is resorted to as a means to fill the Treasury, it ceases to be purely a service to the

community and becomes in part an engine of taxation, the more ill-devised because amid the intricacies of finance and accountancy the consumer cannot know how much of what he pays represents an indirect tax upon him and how much is equivalent to the commercial benefit he derives from the service. He is in the hands of the administrative bureau and has to submit to prices being charged which have no relation to any standard of value since they include more or less monopoly profit (and therefore indirect taxation) according to what officials think the traffic will bear.

7. GENUINE COLLECTIVIST UNDERTAKINGS

It is not usual to regard the securing of revenues as the main or even a subsidiary object of the public management of natural monopolies; the 'socialization' is more generally defended as a means to improve conditions, provide better facilities, and keep fares and charges at a minimum. But despite hopes and promises, the temptation to make profit cannot often be resisted, and a system of disguised taxation is consciously or unconsciously introduced. This result may be looked upon as an incidental development of municipal management which we may believe its promoters would have avoided if they had been able to do so.

Circumstances are different with most of the *legal* monopolies, established and maintained by governments, the reason for whose existence has little connexion with the provision of a 'public utility'. Here there is no doubt about profit-making intentions, since the main purpose and function of these monopolies are to obtain revenues for the State. Among the few exceptions to this rule one might mention the Post Office and the

issue of money, although their activities too are not always confined to the provision of a national service and they may easily be abused by the State taking an unfair advantage of its legal powers, with a view to extracting a fiscal profit. Another exception is the Indian Opium Monopoly which may be said to exist, not for the sake of revenue, but as a means to prevent the excessive consumption of a harmful drug.

For the rest, modern State enterprises conducted as monopolies for the production and sale of goods in universal demand are simply fiscal expedients which impose indirect taxation on the consumer. According as the material used is of foreign or of domestic origin, the 'profit' secured consists essentially in a separate Customs or Excise duty on each article, so levied as to be disguised in the price, and concealed as to incidence and amount from the taxpayer. It is a system which tends to withdraw the control over taxation from Parliament and to place it in the hands of the Executive.

Such, then, is the nature of the outstanding examples of the nationalized industries which remain after the properly non-revenue natural and legal monopolies and the isolated cases of voluntary public enterprise are eliminated from the somewhat imposing but distinctly misleading catalogues of Collectivist undertakings. There is further no instance of the nationalization of these manufactures or trades having been effected in order to substitute the alleged advantages of Collectivism for the alleged drawbacks of what is loosely called 'capitalism'. Historically they are more often than not the descendants of the old-time monopolies and patents granted by kings to their favorites, or

they are an out-growth of the much-discredited device of farming the revenues, the government monopoly having become a directly administered State affair instead of a joint concern with the State and privileged individuals as partners. Even to-day this system of leasing monopolies for taxation obtains in several countries and governments have taken refuge in it in order to escape the defects of direct State management, or because they could get better financial results by entrusting the management of the nationalized industry to a private company or syndicate.[1]

The State monopolies of a commercial, profit-making character are, moreover, comparatively few in number. They include monopolies of life insurance and lotteries and the right that certain governments reserve to themselves to produce and sell alcohol, matches, gunpowder, salt, and camphor. Italy has nationalized life insurance under a law which will be in full operation after the year 1922, and its experiences in this line of business might afford an attractive thesis to the student of actuarial practice who wishes to compare insurance methods and results under State management with methods and results under private enterprise. National (and municipal) lotteries exist in several countries where governments are disposed to cater to and make profit out of the gambling instinct, but it is stretching definitions beyond due bounds to classify such activities as trades or industries. Russia and Switzerland have their alcohol monopolies, suspended in the former case since August, 1914. Salt monopolies are in existence here and there, Japan has its camphor monopoly, and France has

[1] See *infra*: Chapters on Italy, Spain, and Sweden.

nationalized, among other things, the production of matches and gunpowder.[1]

These undertakings are all of less importance and the list is completed by including the tobacco monopolies, the most representative illustrations of State industry and the most frequently quoted as practical examples of Collectivism, deserving therefore a careful and particular examination of the way in which they are operated.

8. STATE MONOPOLIES AND OTHER METHODS OF TAXATION

In saying that legally created State monopolies are intended to be fruitful sources of revenue it must be recognized that the articles taxed in some countries by the method of monopoly are commonly regarded as fit objects for taxation, and where monopolies are not in force other methods of taxing the article are applied. This is particularly true of tobacco. It is almost universally taxed by governments and where any rule at all of taxation obtains, beyond the mere arbitrary claim to impose whatever exactions the authorities think will bring in money, the justification given for such taxation is that tobacco is a luxury; it may be dispensed with and if the citizen chooses to consume it, the tax involves no actual hardship. For that reason the objections properly raised against the taxation of necessaries of life are considered by many to be invalid in the case of an article like tobacco.

[1] An instructive account of the Italian Insurance Monopoly will be found in M. Yves Guyot's *Where and Why Public Ownership has Failed*, English translation, published (1914), by the Macmillan Company, New York. The reader may also be referred to information about the Swiss and Russian Alcohol Monopolies and numerous other public enterprises, contained in the same book.

9. REVENUE SYSTEMS COMPARED

The point just discussed would if pursued lead to wider questions related to the general principles of taxation, but it is not necessary to make a digression into that aspect of the subject. It is sufficient to accept the fact that tobacco is a taxed article, and in our review of the State monopolies we shall take the opportunity to compare their fiscal results with the fiscal results obtained from taxation in other countries where the industry is in private hands. In the latter case the means available are the familiar Customs and Excise duties, stamps, licences, &c., payable either by the producers or by the sellers of the article and passed on by them to the consumers. In addition, non-monopoly countries derive out of the tobacco industry whatever share of income and property taxes, local rates, and other ordinary imposts is paid by tobacco importers, merchants, manufacturers, and retailers. The more flourishing the industry, the greater the bulk of goods produced or consumed, imported or exported, the greater will be this contingent revenue apart altogether from the proceeds of specific tobacco taxes, such as Customs and Excise duties, licences, &c.

State monopolies (excepting in some cases where they are leased) do not contribute in this indirect way to the revenues. A proper comparison of the two systems therefore demands on the one hand a reasonable estimate of the normal taxation of which the State industry is relieved and its deduction from book-made profits; or, on the other hand, if these profits are accepted as including general taxes, it is not sufficient to place against them merely the specific tobacco revenues obtained in non-monopoly

countries, leaving out of consideration the yield of all the other taxes to which the tobacco industry, in common with other industries, has to contribute its share.

10. FINANCIAL AND INDUSTRIAL RESULTS

The published accounts of State Monopolies must be submitted to a careful scrutiny from other points of view; the accredited revenues are arrived at by deducting expenditures from gross receipts and very different results are revealed according as the expenditures include or exclude items like capital charges, rent of property employed, salaries and expenses of Inland Revenue officials, and the value of services rendered to the monopoly by other public departments. The financial results having been examined, it will be necessary also to judge, as far as official statistics and expressions of authoritative opinion can give guidance, what kind of treatment the individual as taxpayer, consumer, retailer, or employé receives at the hands of the State; what quality of goods the State supplies; and whether taking all things into consideration the people who live under the monopoly regime enjoy any perceptible advantage from the legal prohibition against private individuals making profit out of industry.

The information in this book is derived almost entirely from the official publications issued by the governments of the various countries whose monopolies and taxation systems are examined and described; occasional use has also been made of relevant matter extracted from sundry trade journals, foreign newspapers, and from books

dealing with or containing references to the subject under review. A bibliography of all authorities consulted is given in Appendix V. The statistical tables in which, for the sake of convenience and facility in making comparisons, all foreign moneys and weights have been converted into English standards, are kept separate from the text and are assembled in Appendix I with special references in each table to the data on which the figures are based. A table of the equivalents used in this book for converting foreign into English standards of weight and money will be found on p. 214.

CHAPTER II

General Review of the Investigation

1. EXISTING MONOPOLIES

Government control over the tobacco trade by means of legally maintained State monopoly exists in France, Italy, Austria-Hungary (where there are three separate administrations), Japan, Rumania, Serbia, Spain, Turkey, Portugal, and Sweden. It is either exercised by the responsible government itself through duly constituted State departments; or it is entrusted to private parties under a concession, the concessionaires enjoying a stipulated share of the monopoly profits in return for their services as tax-gatherers.

The monopolies in France, Italy, Austria-Hungary, Japan, Rumania, and Serbia are under direct State management and cover the exclusive right of the government to import, purchase, manufacture, and sell tobacco. In Spain, Turkey, Portugal, and Sweden the monopolies are leased to concession companies, which in Spain and Turkey control the whole industry from the purchase of raw materials to the retail sale of the finished goods; in Portugal and Sweden the law establishing the monopoly gave the concession company exclusive rights over purchase of raw materials and manufacture but did not interfere with the freedom of individuals to trade either in monopoly products or in imported manufactures.

For the purpose of our investigation we have thought it sufficient to devote particular attention only to the most representative and most important

of these monopolies, viz., those maintained by the Governments of France, Italy, Austria, and Japan, and to submit the information obtained in regard to them as a means of judging whether or not nationalization as a general policy possesses essential or peculiar advantages. The Spanish tobacco monopoly is briefly examined in order to show the status of the industry and the fiscal results that obtain under the system of monopoly concession. A chapter is also added reviewing the recent legislation in Sweden by which tobacco manufacture was made a government monopoly. It is a modern experiment in nationalization not less interesting because of the reasons adduced for creating the monopoly; the preference shown for private as against State management of the business; the methods resorted to for financing the scheme; and the settlement made with manufacturers, retailers, and others hitherto in the trade.

Information regarding the less important monopolies (the Rumanian, Serbian, Turkish, and Portuguese) we have not thought it necessary to examine may be obtained from official sources; an interesting description of them will also be found in Vol. III of the comprehensive reports of the Swedish Government Tobacco Taxation Committee, published in 1911, or in the equally instructive report (Vol. II), issued in 1907 at Helsingfors under the title *Tobaken* by an association of Finnish manufacturers.

2. MONOPOLIES PROPOSED OR DISCUSSED

(*a*) *Germany*

The Swedish report also contains an exhaustive account of proposals for a State tobacco monopoly

in Germany, submitted to the Reichstag in 1882 but rejected by 277 votes to 33. The Bill was based on a scheme outlined by the Tobacco Enquiry Commission which sat during the years 1878–9 and itself reported by a majority of 8 members to 3 against the introduction of the monopoly. The total capital outlay for the establishment of the new system was estimated in the Government's proposal at £23,341,000, of which £12,573,000 was to cover compensation for loss of business and employment. The Commission had estimated the necessary sum for compensation alone at £33,627,000. The Budget of the monopoly as submitted to the Reichstag showed estimated gross receipts of £19,019,500 (being only £146,800 more than the estimated annual retail value of all tobacco then sold), and expenditure, including interest and charges on capital outlay, of £11,008,200, leaving a net annual revenue of £8,011,300. At that time the country was obtaining, from customs duties and excise taxes on tobacco culture, an annual revenue of £2,413,300. This means that the monopoly, which would have added no more than £146,800 to retail prices, was expected to return an increased revenue of £5,598,000; it was certainly a sanguine and surprising forecast. It was intended to vote the bulk of the new revenue to an endowment fund for the poor, but in spite of this attraction and the great energy with which the then Chancellor, Prince Bismarck, supported the Bill, the scheme aroused the greatest opposition throughout the country and it was, as we have seen, overwhelmingly defeated in the Reichstag. Since then Germany has, by raising the tariff on imports, introducing *ad valorem* Customs duties, and imposing special *ad valorem* taxes on cigarettes

and cigarette tobacco, considerably increased the annual revenue from tobacco taxation, the net yield in 1912 being £8,670,150.

(*b*) *Switzerland*

App. V; 54–61

Proposals for nationalization have further been made in Switzerland and in Australia. In Switzerland the matter became a political issue in 1899, the Federal Council having in May of that year recommended to the Federal Assembly (the two Legislative Councils) the introduction of a tobacco monopoly in order that requisite money might be obtained for financing a scheme of sickness and accident insurance. Preliminary work, dating from 1893, had been done in the Finance Department under instructions from the Council; a departmental report was published in 1895 containing suggested legislation and an estimate of income and expenditure prepared by the two financial authorities, E. W. Milliet and A. Frey. The report budgeted an annual revenue from the monopoly exceeding the then existing customs duties (£64,480) by £320,000, subject to a charge of £60,000 for redemption and interest on compensation. It was anticipated that this increased revenue could be obtained without raising retail prices of Swiss-made goods; prices of imported goods would have been raised by 20 per cent, being equivalent to £23,580. The estimate was revised four years later by the Federal Council which reported a possible additional revenue of £380,000 (instead of £320,000) subject to £60,000 for redemption and interest charges.

The Federal Assembly referred the recommendations of the Federal Council to a special commission of eleven members which rejected by a majority of ten to one the plan of financing national

insurance out of the proceeds of a tobacco monopoly and suggested a number of other measures for securing the required revenues. Both Houses of the Assembly at their session in September, 1899, concurred in this decision, and the monopoly project was thus eliminated. The parliamentary debates did not turn on the merits of the nationalization idea but only on the question whether it was advisable to link up the proposed monopoly with the Insurance Bill. But it was frankly admitted even by supporters of the monopoly that nationalization was distinctly unpopular and it was feared the insurance scheme would be wrecked if its adoption depended on the acceptance of the monopoly as a necessary condition. The Insurance Bill itself was, however, rejected on a referendum to the people although care was taken to dissociate it entirely from the, by that time abandoned, idea of State control of the tobacco trade.

The monopoly proposal has since been raised in 1912 by parliamentary discussion, and again in 1915 by the Finance Department. On the last occasion the chief object was to finance the expenditure on mobilization incurred on account of the European crisis, and the previously named authorities Milliet and Frey were charged with working out a fresh estimate. They declared after enquiry that a monopoly could yield an annual revenue exceeding the existing customs duties (£120,000) by £680,000 subject to a charge of £80,000 for interest and redemption on compensation: to achieve this result it would not be necessary to add more than £134,340 to the prices then paid by consumers. The trustworthiness of estimates of this kind (which by the way omit any reference to the general taxes at present paid by the industry,

whereas the monopoly as a State concern was to be free of taxation), is in doubt ; and it is specially to be remarked that the 1895 estimate got out by the same authorities showed a yield from the Monopoly exceeding the then customs duties by only £320,000. On the basis of unchanged prices in each case there is a discrepancy, not easy to understand, of £249,220 between the two estimates. In any event, opposition to the proposal has again asserted itself. A special income and property tax has been levied to help meet the cost of mobilization, and the financial authorities already mentioned have meanwhile been charged with working out alternative tobacco taxation proposals based on a plan of stamp duties. Between that system and the distinctly unpopular monopoly project the Swiss Parliament will probably give its decision sooner or later.

(*c*) *Australia*

App. V ; 79

In Australia, Select Committees of the Senate in 1904 and 1905 and a Royal Commission of five members in 1906 made an inquiry into the tobacco industry. The Majority Report of the Commission declared in favour of nationalization and estimated that a government monopoly, without increasing the existing retail prices, could provide the Federal Treasury with an additional revenue of £402,572 per annum. One member of the Commission (Senator J. P. Gray) issued a Minority Report dissenting from the findings of his colleagues, asserting that the estimate was necessarily guesswork, and pointing out that no allowance was made for interest on and redemption of the requisite outlay on purchase of buildings, plant, machinery, nor for goodwill of the importers and manufacturers. Nor were repairs, renewals, and insurance included,

and no provision was made in view of the Commonwealth Public Service Act, according to which all employés over 21 years of age, whether male or female, would have to be paid a minimum wage of £110 per annum. The Minority Report stated that at least £284,000 would have to be written off the estimate of the Majority to meet these neglected charges and expenditures. It might also have been pointed out that the then existing revenue from income and property taxes, local rates, &c., was not taken into account. The Report of the Commission has not since been followed by any political or parliamentary action.

3. STATE-INDUSTRY RESULTS SUMMARIZED—REVENUES

Returning to the more important of the State monopolies which are in practical operation under direct government control, we propose to summarize here the main features of their administration, referring in the margin to subsequent chapters and tables for the fuller particulars upon which our observations are based; and we will take under review, by way of comparison, some statistics as to revenue, consumption, external trade, and other data collected in the Appendix for the United Kingdom, the United States, Germany, Canada, Australia, and New Zealand.

The first and most important question is the yield of public revenue produced by the monopolies, as to which it is not sufficient merely to accept the figures returned in official reports. We shall find that the methods of accountancy adopted in the State departments are often faulty, and the officially reported profit cannot always be accepted

as the true net income derived solely from the business of producing and selling tobacco as a separate State undertaking distinct from other departments. The French Monopoly was said, for instance, to have returned in 1912 a net revenue of £17,421,300, but the profit is arrived at without including in the accounts many items properly chargeable against the Administration. In particular these items cover rent, interest, salaries and expenses of Treasury officials, and the value of services performed on behalf of the Monopoly by other State departments. The very complexity of the inter-relationships of government offices makes it impossible even to estimate the bulk of these items, but deducting the charges that can be calculated, the revenue credited to the Monopoly should be reduced to not more than £16,534,900. The profit officially reported is equivalent to 8*s*. 10·3*d*. per head of population and 3*s*. 7·2*d*. per lb. sold, whereas the actual profit is equivalent to not more than 8*s*. 5*d*. and 3*s*. 5·7*d*. respectively.

Chap. IV; §§1–7

In Austria even less care is taken to debit the Monopoly with the expenses incurred on its administration. Scrutiny of the accounts shows that the officially reported revenue, amounting to £9,565,050, is in excess of the actual by at least £1,198,950. The revenue per head, returned at 6*s*. 7·7*d*., is in reality not more than 5*s*. 9·7*d*., and the revenue per lb. should be stated at 1*s*. 10·9*d*. instead of at 2*s*. 2·2*d*. The Italian Monopoly, on the contrary, makes a better attempt at business-like accounts, charging the management with rent, interest, and costs of collection, but even so the attempt is perfunctory and essential items of expenditure are ignored. As the latter belong

Chap. VII; §§ 10–11

Chap. VI; § 7

to the less easily estimated class of expenses,[1] no specific sum has been deducted from the official Italian figures, which work out at a net revenue equivalent to 5*s*. 8·1*d*. per head and 4*s*. 4·6*d*. per lb.

4. COMPARISONS BETWEEN MONOPOLY AND NON-MONOPOLY COUNTRIES

Tabulating the revenue results in the monopoly and non-monopoly countries under review, we can see at once that the claims often made for State control as means of procuring most money for the Treasury are far from well founded.

Comparison according to the relative revenue per head of population arranges the various countries in the following order :— App. I; Table I

Revenue from (a) Specific Taxes; (b) State Monopoly

	Revenue per head	
	s.	*d.*
(a) New Zealand (1912)	11	5
(a) Australia (1912)[2]	8	7
(b) France (1912)	8	5
(a) United Kingdom (1912–13)[3]	7	4·5
(b) Spain (1913)	6	2·2
(a) Canada (1912–13)	5	10·5
(b) Austria (1912)	5	9·7
(b) Italy (1912–13)	5	8·1
(a) United States (1912–13)	4	4
(a) Germany (1912)	2	7·1
(b) Japan (1912–13)	2	2·1

[1] Interest on floating capital, postages, depreciation, insurance, national and local property taxes.

[2] A new Australian customs and excise tariff with numerous increases in the duties came into force on 3rd December, 1914. The *Monthly Summary of Australian Statistics* for August, 1914, shows (for the period January to August, 1915) £1,700,653 gross revenues from Customs and Excise duties on tobacco. This is equivalent to £2,550,980 gross revenue for the full year and net revenue £2,288,800 (deducting also costs of collection) based on the ratio of gross to net revenue in 1913, the latest annual return

The comparison may also be made by revenue per lb. consumed or sold, although that is a less trustworthy basis since it is not a criterion of the national revenue obtained but simply represents the taxation which the Government of the country happens to impose on the article. A comparatively high tax is generally reflected in comparatively low consumption, although of course consumption may be influenced by other circumstances, *e.g.*, national habits and the purchasing power of consumers.

The following table is arranged according to the revenue per lb. and shows at the same time how much consumption there is in each country per head of population. It reveals the fact that, relatively speaking, taxation is highest and consumption lowest in monopoly countries—the latter an important feature since it should be at least one of the objects of a State industry to cater liberally to the citizen-consumers. Read in conjunction with the above table, some of the figures should not pass without remark. The Italian Monopoly has, for instance, to make a profit of 4*s.* 4·6*d.* per lb. to get a revenue of 5*s.* 8·1*d.* per head, whereas New Zealand, with a tax of 4*s.* 1·5*d.*, App. I; Table I

available. This net revenue in 1915 is equivalent to 9*s.* 3*d.* per head; in the absence of particulars as to quantities consumed it is not possible to say what is the corresponding revenue per lb.

[3] The customs tariff on tobacco was increased by 50 per cent in September, 1915, the Chancellor of the Exchequer estimating (with liberal allowance for diminished consumption) an increase of £5,100,000 in the revenue, or a total yield of £24,000,000—equivalent to 10*s.* 1*d.* per head. According to *The Times Annual Financial and Commercial Review* of January 21, 1916, the actual yield in the months succeeding September, 1915, indicates little decline in consumption, and points to an annual revenue of about £27,000,000 (equivalent to 11*s.* 5*d.* per head) being realised.

Recent increases in tobacco taxation in other countries are reported, but particulars of results have not been available.

obtains as much as 11*s.* 5*d.* per head; or again, France obtains a revenue of 8*s.* 5*d.* per head from a profit of 3*s.* 5·7*d.* per lb., whereas Australia obtains 8*s.* 7*d.* per head from a tax of only 2*s.* 10·5*d.* per lb.

	Average revenue from (a) Specific Taxes per lb. consumed (b) Monopoly Profit per lb. sold	Consumption per head (lb.)
	s. *d.*	
(b) Italy ..	4 4.6	.. 1·22
(a) New Zealand ..	4 1·5	2·75 ..
(b) France ..	3 5·7	.. 2·41
(a) United Kingdom ..	3 3·4	2·25 ..
(b) Spain ..	2 11·9	.. 2·06
(a) Australia ..	2 10·5	3·00 ..
(b) Austria ..	1 10·9	.. 2·95
(a) Canada	1 6·6	3·81 ..
(b) Japan ..	1 6·5	.. 1·41
(a) United States ..	9·1	5·71 ..
(a) Germany ..	8·2	3·76 ..

In compiling these figures, the net revenue has been adopted in each case: that is to say, from the officially-reported monopoly profits the uncharged expenses already referred to have been deducted; and from the official revenue returns in the non-monopoly countries a sum has been deducted equivalent to the costs of collecting the specific tobacco taxes in each case. All the countries therefore have, as far as possible, been placed on a fair level for comparison, with an important omission which must be mentioned.

The figure of the revenue obtained in the non-monopoly countries would show an appreciable increase if the contributions made by manufacturers, dealers, etc., to the ordinary taxes were included—representing revenues which are manifestly absent where factories, warehouses, and (as in most monopoly countries) even the business

of retail sale belong to the State. At the risk of repeating and dwelling over-much on what must be obvious, let us attempt to figure out this incidental revenue for the United Kingdom as an example. The number of retailers is 396,572, there are 346 factories, many of them large establishments, and the trade also employs bonded and free warehouses and premises for wholesalers, importers, exporters, &c. The total sum contributed by the owners of all these businesses to income and property taxes, local rates, stamp duties, and other imposts must be considerable. Taking first the retailers, if their average annual payment to rates and taxes is reckoned at no more than £5 in respect of their purely tobacco business (for many sell other things besides) the State and the local authorities are receiving from them, in addition to licences and tobacco taxation properly so-called, a contribution of £1,982,800. It would not be beyond the mark to add at least half a million pounds for the general taxes paid by the manufacturers, &c., and the whole amount paid by all concerned could certainly be put down at a minimum of £2,500,000.

App. I; Table I

Some such amount should be included in the tobacco revenues of the United Kingdom if revenue figures are to be used for purposes of comparison, say with a Monopoly country like France, where retailers do not pay local rates and factories are of course tax-free. The addition of the £2,500,000 would raise the *per capita* figure in the United Kingdom from 7*s.* 4·5*d.* to 8*s.* 5*d.* and place it on a par with that of France. And so of the other countries, comparisons are unsatisfactory unless they are corrected by similar calculations.

Chap. III; § 13

5. QUALITY OF TOBACCO CONSUMED

Chap. V; § 2

In one of the reports of the French Parliamentary Commission of Inquiry into the Tobacco Monopoly, 1875, it is truly said that if the raw material is faulty no amount of care or application in the process of manufacturing can give value to the finished products. One criterion of the quality of the latter is the quality of the leaf used, which again may be judged by the price the manufacturer pays for his supplies. This is much lower as a rule in monopoly than in non-monopoly countries, and the difference in most cases is so great that it cannot be attributed to any presumed advantages sometimes said to be possessed (because of their greater buying power) by government agents in making purchases.

App. I; Tables 6, 27, 43

The first cost of all leaf (home grown and imported) used by the French, Italian, and Austrian Monopolies is respectively 4·86*d.*, 6·36*d.*, and 5·91*d.* per lb.; adding the money spent by each on preliminary processes for preparing the home growths, the

App. I; Table 1

average factory cost of the total leaf used is respectively 5·51*d.*, 6·93*d.*, and 6·28*d.*; but these prices are not altogether reliable since they generally include a premium to the growers of the domestic leaf. The Italian and Austrian figures, moreover, are relatively high, possibly because of the relatively large

App. I; Tables 27,28, 43, 44

consumption of cigars in those countries and the consequent demand for the dearer wrapper leaves obtained from abroad. Accepting all the figures, however, as they stand, they compare very unfavourably with the *prime* cost in the United Kingdom for instance, which is 8·97*d.* per lb., or

App. I; Table 1

with Canada, which is 10·10*d.* per lb. In Australia the prime cost of imported leaf (making up 91 per

cent of the raw material used) is 1*s.* 2·3*d.* per lb.; the figure for all leaf used is 1*s.* 1·7*d.* per lb.

Actual comparisons of the quality of finished goods are not so easy. Ideas can only be formed by those who have had the opportunity to test the various kinds of tobacco sold on the spot in the several countries and as to that the author has no experience. There is adequate testimony of comparative inferiority in monopoly countries, but it is possible these judgments are made after comparison with the prices at which similar qualities are obtained elsewhere, and it should not be forgotten that the monopolies fix their prices according to a stiffly graduated scale, making their profits by the highest realizable difference between cost and selling prices. Although it will be found that this attempt at an *ad valorem* system completely breaks down in practice owing to the bulk of the consumption being restricted to the cheapest class of goods, still it may happen that the comparisons we are referring to are made by selecting some of the dearer goods as a standard.

Chap. IV; § 8
Chap. VI; § 8
Chap. VII; § 12

It is therefore altogether preferable to ascertain what the inhabitants of the monopoly country or countries themselves have to say, and rather form opinions in this way of inherent quality apart from money value of the goods supplied by the State. Evidence of grave complaints on the part of French retailers and consumers has been assembled in a subsequent chapter, and we can refer to that, supported as it is by official admissions, as convincing proof that the Monopoly functions badly as a provider of goods, whatever may be its merits or demerits as an engine of taxation. Definite information concerning the general quality of tobacco sold in Austria is wanting; in Italy the frequent

Chap. V; §§ 3–4

Chap. VI; §§ 14–15

strikes among piece-workers in the factories, protesting against the quality of the leaves from which they are expected to make cigars, speak for themselves.

6. PRICE-LISTS OF THE MONOPOLIES

The methods adopted in France, Italy, and Austria for fixing and regulating the price-list of goods confirm what was said in the previous chapter as to the arbitrary incidence of taxation when

Chap. VII; § 8

associated with State profits. In Austria, Parliament has no control over selling prices, the consumer simply paying what tax the Finance Department considers it is necessary to impose as monopoly

Chap. III; § 7

profit. The French Chamber exercises jurisdiction over prices but only when a general revision of the list is contemplated in connection with the annual Budget Bill. Smaller changes and the fixing of prices for new brands are made administratively, and the officials in control are not so much guided by any definite ratio of selling price to cost as by their own idea of what figure will produce the best results. In the circumstances the consumer cannot possibly know what he is paying for tobacco as such nor control his contribution as a taxpayer, which he ought to have full power to do if Government is to be the servant of the people and not its master. Even the general prices fixed by the Chamber, and the same is true of prices fixed administratively, are subject to being tampered with surreptitiously by altering the composition, the weight, or the quality of the products while preserving the official name. That this practice can be and is in fact reduced to a fine art is proved by the

Chap. V; § 2

frank official admissions of substitution of lower

Chap. VI; § 6

grade for higher grade leaf in France and by the subtleties of price-fixing in Italy, observed and

reported by the Swedish Government Tobacco Taxation Committee of 1909-11.

Another aspect of the State price-list is the meagre number of varieties and brands it comprises, a matter of much importance in the case of an article like tobacco, which, lending itself to the skill of the blender, can be adapted to suit every difference in individual tastes. The Government monopolies work in the opposite direction by standardizing production as far as possible and manufacturing according to stereotyped recipes. They forbid the retailer to manipulate the tobacco in any way; he dare not make up cigarettes for sale; he must not entertain any idea that he could possibly please his clients with a mixture composed of tobaccos in stock; he may only sell what comes from the factories just as it is delivered to him. The assortment of tobaccos offered to the public is so limited that the smoker can as a rule obtain only one article for one price, and the dictation of the State as to what he shall buy becomes more and more arbitrary the less he can afford to pay. The Austrian Monopoly makes the best attempt of the three to supply a variety of tobacco products, although anything like an option for a given price is only possible in the case of the dearest goods. The price-list includes 133 different tobaccos of Austrian manufacture and 42 imported brands, mostly cigars. How altogether insignificant this assortment is may be judged by the thousands of brands offered to the smoker in the United Kingdom.

Chap. III; § 5–6
Chap. IV; § 8
Chap. VI; § 8
Chap. VII; § 12
Chap. III; § 13
Chap. VI; § 5

7. EXTERNAL TRADE

The sales of manufactured products outside France, Austria, and Japan do not indicate that the monopolies find much demand for their goods

Chap. IV; § 11

Chap. VII; § 15
Chap. VIII; § 6

abroad. Special efforts are made to develop the business by advertisement and through official representatives, but it does not flourish as it should if there were any ground for the belief that State industry possesses peculiar economic advantages, or that State-manufactured goods are necessarily of high quality. Competition would prove the advantages and establish the quality. The French and Austrian Monopolies have been in active operation for the best part of a century and yet

App. V; 1; 32; *passim.*

the foreign business done by France has never exceeded 1,000,000 lb. annually and Austria's best results (those for 1912) have reached only 1,915,600 lb., the exports being sold largely to Austrians in Germany. At one time the French

App. V; 4, p. 183

Monopoly, after a special agency during the years 1863–1869 had failed to attain success, set up a depot of its own in London, but it could not market the goods in any quantity (although charging, after August, 1866, only 20 per cent as profit) and the experiment had to be abandoned. In 1912, according to the British official trade returns (Cd. 6810), 29,930 lb. manufactured tobacco were imported into the United Kingdom from France.[1] In the

App. V; 1 pp. 101–2

same year the French Tobacco Monopoly bought 62,930 lb. manufactured tobacco from the United Kingdom.

Chap. VII; § 9

The Italian Monopoly, on the other hand, does comparatively well when the figures of exports are placed side by side with those of the other administrations, but the bulk of the trade is to the Argentine and is destined for the Italians who are constantly migrating between that country and Italy. They retain their taste for the 'Tuscan' cigars and other

[1] The French Monopoly reports, among its foreign sales, 10 kg. (22 lb.) sold to England, which is obviously an error.

national products. It may, however, be noted that the export business with the Argentine has been built up from small beginnings under private enterprise by independent merchants operating under a concession from the Monopoly. The Italian Monopoly, as a fact, does not take part in foreign trade itself; it leaves that to the ordinary channels of commerce and sells the exported goods from certain export warehouses at stipulated prices subject to an agreed discount.

In another important respect the monopolies do badly. In these countries there is no re-shipment nor emporium trade such as exists for instance in Holland and Germany. The legislative protection enjoyed by the monopolies forbids the establishment of private premises to be used as tobacco exchanges or marts, and governments themselves have not yet essayed to do business as intermediaries or brokers in the world's trade. They are interested merely in purchasing for domestic consumption. What they lose in external trade other countries gain and the raw material markets flourish elsewhere in Europe (*e.g.*, Rotterdam, Amsterdam, Hamburg, Bremen, and London) with the French Monopoly itself as one of the customers. State industry has thus not only to rely on private enterprise for a large part of its requirements; it also closes down within its own territory a profitable commercial field which if allowed to develop would benefit many interests other than the merchants immediately engaged and incidentally bring in much revenue to the State in the way of general taxation. That it benefits such interests in the United Kingdom and in Germany and in addition provides incomes for government and local authorities (never reckoned in the statistics

App. I; Table 1

App. V; I, *passim*

of comparative tobacco revenues) is indicated by its extent and importance in these countries. The United Kingdom in 1912-13 exported 18,403,150 lb. of manufactured tobacco, made (mostly in bond) from leaf that had to be imported for the purpose, and it reshipped 3,715,570 lb. of foreign and colonial produce; Germany in 1911 exported 68,304,600 lb. of other than domestic produce. The handling of goods in such quantities and their subsequent distribution to foreign markets, requiring and rewarding the services of shippers, brokers, warehousemen, dockers, transport workers, &c., cannot but contribute to the general welfare equally with any other useful employment.

Chap. III; § 3
Chap. VI; § 3
Chap. VII; § 3
Chap. VIII; § 2
App. II

8. TOBACCO CULTIVATION

The growing of tobacco in the monopoly countries is subject to many arbitrary and often mutually opposing influences. In one district it is regarded as a national industry to be encouraged and even artificially stimulated, in another it is a legal offence and is severely suppressed. The authorities decide where the plant may be grown and where it shall not, the despotic sanction or prohibition arising no doubt from the circumstances of the case, for tobacco as an article of taxation must be under Excise control. The tobacco-growing areas are selected and their limits prescribed in order to facilitate supervision by the officials and keep down the heavy cost involved in enforcing the hundred-and-one regulations and in preventing illicit cultivation. Nevertheless the granting of licences in some districts, with the accompanying possibility of either favoritism or unfairness, and the withholding of licences elsewhere can scarcely be regarded as in the best interests of agriculture.

It is doubtful also to what extent the use of the home-grown article gives satisfaction to the consumer, whose interests the State must perforce consult at the same time. The comparatively low price of the French, Italian, Austrian and Hungarian leaf is a temptation to incorporate in the finished products as much as possible of such raw material; but low price means inferior quality, and in a large measure the consumer, who has no choice but to accept what the State supplies, suffers in proportion as the planter benefits. The State however has to reconcile the interests of tobacco-growers not only with the tastes of consumers, but also with the yield of public revenues from the Monopoly; since the prices paid for the leaf, low as they may be, compared with the cost of imported raw material, are not necessarily determined by any standard of value. They are fixed administratively by reference to certain selected types of leaf and at a level which it is thought will provide sufficient profit to induce the cultivator to grow tobacco. That level of prices may be below or may be above what the tobacco would be worth in the open market. If the planter considers he is badly treated he can agitate for higher fixed prices or use political influence to obtain them; if he is paid more than what the State need pay for imported leaf of equal quality, both the revenue and the consumers are sacrificed to his advantage. The resultant of all these forces, controlling the status of an industry which the authorities consider must be regulated, encouraged, restricted and prohibited all at the same time, would be difficult to determine. It is not easy to say of any of the monopoly countries whether tobacco-growing is on a sound or on an unsound footing. It makes at any rate little progress in France, Italy, Austria,

App. I; Tables, 20, 39, 57 Chap. IV; § 10

or Japan; in France the area actually cultivated has declined although the number of Departments in which tobacco growing is permitted has been extended, and the prices paid to planters have been steadily increased, reaching a figure which at the present time is equivalent, on the authority of the French *Journal Officiel*, to a bounty of $1\frac{1}{2}d.$ per lb.

Chap. V; § 2

The quality of the leaf, where there is no positive evidence forthcoming as in the Reports of the French Inquiry Commission of 1875, may be judged as indicated above by the prices paid; or by the expenditure necessary to make the material fit for manufacture; or by the failure of planters having official permission to export to develop a foreign market. Leaf is not exported from either France or Austria and little is sent abroad from Italy and Japan. The Hungarian planters (not the State Monopoly) export annually from a total produce of 162,000,000 lb. about 24,000,000 lb. of tobacco, of which France buys about $5\frac{1}{2}$ million lb. at an average price of less than $4d.$ per lb., and the rest goes to Spain, the Netherlands, British possessions in the Mediterranean, Egypt and Switzerland.

App. I; Table 1

App. V; §1; 94, p. 12

Dr. William Mariska, a Hungarian economist, has something to say in his *Text Book on Public Finance* on the 'Influence of the State Tobacco Monopoly upon the National Welfare', with special reference to leaf cultivation. The following passage has been translated and is worth quoting:—

> We cannot commend the Tobacco Monopoly from the point of view of the common good. Its most harmful effect is the restriction of liberty in agriculture and the evil is all the greater when it is considered that there is scarcely any other crop which gives an equal return to the industry of the small farmer. The gathering, stringing, drying, smoothing, and sorting of the tobacco leaves are done in

those seasons when more important farm work does not interfere with such operations; and the work can be done just as efficiently by women and old people.

The Monopoly does not pay adequately for the more refined grades of tobacco and their necessarily careful handling. It has also a discouraging influence in so far as cultivation is restricted to certain areas, the restriction being required to prevent (fiscal) supervision being insufficient or too expensive. Cultivation is, in fact, prohibited in most parts of the country and in respect of the national wealth the prohibition does much injury, since scattered plantations could serve as experimental stations tending to become so many centres of cultivation in time.

But cultivation is limited even within the boundaries of permitted areas. The Treasury does not care to purchase consignments of less than a given quantity and as a result the law prescribes a minimum area of land to be used by cultivators. For instance in our country (Hungary) excepting in those villages where fine or second-grade garden leaf or other helpful material is cultivated, only those cultivators can obtain permission who are prepared to undertake tobacco-planting on an area of at least 0·5755 hectares (1·42 acres) which as far as possible must be of regular shape. These limiting conditions render impossible the cultivation of tobacco as a subsidiary occupation.

The prohibition against working up the raw tobacco prevents the development of an important branch of private industry. The Monopoly further hampers the export of raw material and its products. In addition to the restrictive influence of the supervision over exportation itself, there is also the effect of the official surveillance over the planters which discourages them even from cultivating for export. The Treasury management keeps in view the home rather than the export demand and the cultivation of superior quality tobacco, more suitable on that account for export, is not studied. . . .

Defenders of the Monopoly formerly urged that tobacco-planters had no occasion to be alarmed at the prospect of not being able to sell their crops, seeing that the State is a constant and sure buyer, paying immediately after purchase and even advancing money without interest to the planter on his crop. But the punctual and reliable payment by the Treasury is a circumstance which in itself hardly improves the lot of the cultivator. Were the price decided by open competition and by agreement between the State and the manufacturer, cultivator or dealer, it would depend on the costs of cultivation and the trouble connected with it. But where the Monopoly exists the cultivator must be content with the price

determined by the State. Moreover, in the case of our State Monopoly, the planter is in constant fear that the government will withdraw the licence granted for only a few years [for one year in Hungary] in which event the money invested in buildings and tools would be wasted. To this we may add that the sympathy or antipathy of the clerks employed in the purchasing stations, or their personal opinion, very often decides the grading and the price of the tobacco. The grant or withdrawal of the licence is even used as a means to reward those who render a political service or to intimidate these who hold adverse political opinions. . . .

9. ALLEGED ECONOMIES IN DISTRIBUTION

It is a mistaken idea that the existence of middlemen between the producer and the retailer or the producer and consumer is an unnecessary burden on trade and increases the cost of distributing goods for sale without returning any corresponding service. The doctrine of the 'middleman as parasite' has, however, its adherents; and it prompts the belief that, given the management of industry by the State or municipality, the wholesaler could be eliminated and the number of retailers materially reduced in the interests of public economy, the benefit of the saving going either to the consumer in lower prices or to the Treasury in increased profits. The theory is applied particularly to conditions under State industry and to the co-operative movement, but even so it is based on a false conception of the nature of distribution and of the useful agencies it must necessarily employ to be efficiently performed. Under whatever auspices the work of marketing widely-consumed articles is carried on, whether by private or public enterprise, it must use the machinery of wholesalers on the one hand to relieve the manufacturer of the cost of handling small consignments and running numerous small transactions, and on the other hand to save the

retailer the expense of carrying a larger stock than he can readily sell and replace within short periods. The retailer on his part serves the consumer by giving him convenient access to the small purchases he makes from day to day, and by offering him the opportunity to select his requirements on the spot.

The State monopolies have not been able to dispense with these services. Distribution is organized by them through the medium of both retailers and wholesalers, and in no case are consumers able to get goods direct from the factories. Sometimes, owing to special circumstances, they may purchase from wholesalers, but never at less than the retail price. The French Monopoly, with an annual sale of 94,945,700 lb. has established 357 'entrepôts', or wholesale premises, to act as distributing links between the factories and the 47,500 retailers, and the evidence of much friction between retailers and wholesalers in France goes to show either that the number of the latter is too few or that the service is otherwise cramped by the administration and badly managed.

Chap. III; §§ 9–10
App. I; Table 7
Chap. V; § 5

In Italy, where the annual sales are 42,930,400 lb. the tobacco is delivered to the 34,752 retail shops through 118 warehouses and 462 wholesale depôts. The Austrian selling arrangements are even more comprehensive since for the sale of 84,961,500 lb. there are 70,401 retailers supplied by 982 wholesalers, who in turn get their requirements from 17 selling warehouses and 34 'selling stations,' many of the latter being annexes to the factories. In Japan there were in 1910 (the latest year for which these data are available) 1,012 wholesale business places, and in 1909 there were 190,410 retailers; consumption in 1912–13 was approximately 74,000,000 lb. Thus, the State as

Chap. VI; § 5
App. I; Table 28
Chap. VII; §§ 5–7
App. I; Table 44
Chap. VIII; § 5
App. I; Table 53

manufacturer and trader has to build up consciously and arbitrarily precisely the same machinery of distribution (though it may differ in particulars and in costs incurred) as that which under free conditions suits itself unconsciously and automatically to the needs of the case.

Another feature in the normal business of distribution, frequently criticized by Collectivists as wasteful to the community, is the expenditure upon advertising. The subject is one which opens up many interesting economic questions too complex to be discussed here, and we merely answer them with the assertion that advertising plays an important and valuable part in promoting industrial activity. It stimulates demand, keeps producer and consumer in touch with one another, and improves the quality of the goods supplied without penalizing either producer or consumer. The State monopolies, having the absolute control of the trade, leave popular advertising alone; but the folly of endeavouring to economize by neglecting to inform the consumer what articles are for sale and in what variety has been frankly admitted by the French Under-Secretary for Finance in certain recommendations he made to the French Parliament for increasing the revenues from tobacco and reforming the conduct of the Monopoly. It cannot be lightly maintained that an industry managed by the State provides, without advertising, the same satisfaction to the consumer as he could get from private industry reasonably assisted, as private industry usually is, by the advantages of publicity.

Chap. V; § 8

10. THE RETAIL SHOPKEEPERS

Chap. III; § 11

The chief characteristic of the retail tobacco trade in France, Italy, Austria, and Japan is the

creation of a local monopoly in connection with each shop, constituting a privilege which the State may sell to the highest bidder or cede by patronage to deserving officials and their dependents. To maintain this system the situation of the shops requires to be settled administratively, and the area granted to each so determined that each may have an artificial licence value. In France, the privilege of selling tobacco is granted exclusively to protégés of the State; in Italy and Austria only the smaller shops are in the hands of such nominees, the fewer large shops being put up to auction for the highest repayment the competing licensee is willing to make from the profits of the shop. In France and Italy, the majority of the shops ceded by patronage are simply political sinecures for the nominees, who as a rule have no knowledge of the trade or do not care to stand behind a counter; they find some one to take their place and reserve to themselves the value of the licence. The tobacconists proper have little security of tenure and out of their condition many complaints and grievances continually arise.

Chap. VI; § 16
Chap. VII; § 7
Chap. VIII § 5

The profits left to the tobacconists after the pensioners have drawn their royalties (or after rebates from commission have been paid to the Administration) are meagre enough since the whole retail discount, out of which both the trader's income and the royalties (or rebates) must be paid, was in 1912 only 8·00 per cent of the retail price in France, 8·06 per cent in Italy, and 10·00 per cent in Austria. In Italy, moreover, the discount has been steadily reduced by the administration, and this reduction in part explains the increased revenues the State has derived from the Monopoly.

App. I; Table I
Chap. VI; § 16

The retailer's business is subject to frequent official inspection and to numerous stringent regulations, obligations, and interdicts, all observable according to the strict letter of the law. In what follows, the position of the tobacconists, forming as they do by far the greatest number of citizens employed under State industry and yet labouring under grave disabilities, is more fully described and need not be discussed further here.

11. WAGES AND FACTORY CONDITIONS

App. I; Tables 14, 34, 49

The information obtained regarding the wages of tobacco workers in the factories is best summarized in tabular form, and the following data (reducing wage payments to rates per hour) give a general idea of the industrial conditions in the three chief Monopoly countries.

A distinction is made in the table between the actual cash wages paid to the operatives and the wages including payments in kind. This is done because the wages officially reported by the French and Italian Monopolies (viz., France 5*s.* 5·7*d.* per day to men and 3*s.* 6·4*d.* to women; and Italy 4*s.* 6*d.* per day to men and 2*s.* 2·5*d.* to women—corresponding respectively to 7·30*d.*, 4·71*d.*, 6·75*d.* and 3·31*d.* per hour) cannot be reconciled with their expenses accounts, and must therefore include the value of wages in kind—those philanthropic services which the State pays out in pensions, sick relief, insurance, &c., as subsidies to the workers. In Austria the greater part of the cost of these services is not borne by the Monopoly itself but is a direct charge on the Treasury, and their amount (£359,100) is calculated here from passing observations made in the descriptive section of the official Report.

Chap. VII; § 11

	France	Italy	Austria
Staff managers, officials, overseers and foremen ..	1,072	1,109	999
Male factory workers ..	2,344	1,468	4,971
Female factory workers ..	15,624	16,446	32,297
Ratio of wage-workers to managing staff and overseers, &c.	16·7 to 1	16·1 to 1	37·3 to 1
Ratio of female to male workers	6·66 to 1	15·3 to 1	6·50 to 1
Factory hours per week ..	54	48	51
Average direct joint wages payment to male and female workers, per hour	3·91*d.*	2·67*d.*	3·02*d.*
Ditto to male workers ..	—	—	3·80*d*
Ditto to female workers ..	—	—	2·90*d.*
Average wage per hour (including value of State philanthropic services and/or overtime) to male workers ..	7·30*d.*	6·75*d.*	—
Ditto to female workers ..	4·71*d.*	3·31*d.*	—
Ditto to male and female workers, jointly	—	—	3·89*d.*
Factory wages paid, as entered in expenses accounts ..	£807,750	£497,600	£1,242,600
Value of State philanthropic services (pensions, sick relief, bonuses, &c.), and/or overtime	£142,550 [1]	£101,350	£359,100

Standing alone, the data in the table are not quite conclusive as to the comparative welfare of employés under the State; to be a sufficient guide they would require to be examined by reference to wages and hours in other trades and industries within France, Italy and Austria, and it is hardly likely that the respective governments

[1] Including philanthropic service to overseers and foremen.

pay or can pay less than the market rates or employ a greater proportion of women than is customary on the average in factories run by private enterprise. Moreover, the suitability and application of female labour often depends on the nature of the industry itself. Nevertheless, the wages are so low and the women workers so numerous, that it is difficult to conceive how conditions could be less favourable outside government employment: the figures, at any rate regarded in the light of labour standards in the United Kingdom, help to explain one of the sources from which the monopolies derive their profits. As to women workers one might compare conditions in the United Kingdom, where tobacco factories employ 342 women to every 100 men; or in Germany, where for factories employing at least 10 workers, the ratio is as 205 to 100. Assuming State industry where it does not exist, it would manifestly be quite impossible for countries where wages are higher (except to the degree to which higher wages make labour more efficient and more productive), factory hours shorter, and women's labour scarcer than in France, Italy, and Austria to rival the State monopoly profits while maintaining the same margin between prime cost and selling prices. The higher wage countries would either have to sell dearer or purchase cheaper or do both. These are important considerations, and, coupled with the faulty book-keeping methods of the monopolies and the paltry discounts allowed to retailers, require to be kept in mind when the official balance sheets of these State industries are consulted.

App. I; Table 1

Further particulars of payments made to employés will be found in the tables in the Appendix.

App. I; Tables 14, 34. 49

They reveal a great disparity between the wages paid to ordinary workers and the salaries of the officials in authority over them. The officials, being on the permanent staff as civil servants, enjoy the additional advantage of secure employment—a condition seldom, if ever, granted to the ordinary State employé paid by time or piece-work. But although the officials have these privileges there is evidence from France to show that the Government does not always pay the salaries expert or skilled services can command, the Finance Minister having been obliged to admit that the best members of the managing staffs frequently leave the State service and find more remunerative employment in private industry; 'it was too often the case that other public departments lost employés' in the same way.

Chap. V; § 7

We also refer to subsequent chapters, without repeating the details here, for evidence of unrest in the factories as far as it has been possible to get information from France and Italy. To the working operative the wages are low and the hours long and his discontent has led to agitation and to strikes either threatened or executed. In Italy each Annual Official Report catalogues the 'labour unrests' in each year under review, and we have recorded elsewhere the troubles in the factories during 1912. But these were only minor affairs compared with the general strike in 1914 when there was a universal stoppage lasting eight weeks.

Chap. V; § 7
Chap. VI §§ 14-15

12. INDEPENDENT TESTIMONY

App. V; 100
App. V; 101

Among recent publications which give a comprehensive view of the business operations of State and municipal enterprises generally, we would refer to the descriptive and analytical report presented by

M. Gustave Schelle to the International Statistical Institute at its Congress at the Hague in 1911; and to M. Yves Guyot's *Where and Why Public Ownership has Failed.* M. Schelle, a former French Minister of Public Works, was appointed at the Congress of the International Statistical Institute in 1909 as secretary of a committee instructed to make a special investigation into the public control of industries. He collected information from a large number of countries and has compiled a valuable and authoritative work of reference. His conclusions are emphatic that the book-keeping methods of State and municipal enterprises are faulty, and are often such as to render it impossible to determine to what extent the business results in either profit or loss to the community. In that connexion, and in respect of capital charges, rents, interest, and the omission of other items from the expense accounts, M. Schelle's findings agree with what we have ascertained to be the case with the government tobocco monopolies. M. Guyot's work ranges over a wide field, and deals fully not only with financial aspects but also with industrial results and the political and social consequences of public operation. It devotes a number of pages to a consideration of the French government's control of the tobacco trade, and bears witness to the complaints of consumers, the unsatisfactory business management of State departments, and the losses suffered by agriculture, industry and commerce. An extract from M. Guyot's remarks on this subject is reprinted as Appendix IV.

As to wages and factory conditions, what has been said in the previous section admittedly has specific reference to tobacco manufacture under the State, and it may be contended that the conditions are

not necessarily characteristic of all public employments. We may therefore usefully supplement our remarks by quoting several passages on the point from the report on the Public Control of Industry recently issued by the Fabian Research Department. That report describes the status of the wage-earner not in any particular public enterprise, but as it obtains generally in State and municipal industries; and the evidence is the more significant as the Fabian Society cannot be charged with hostility to the principles of nationalization. We extract the following statements:— App. V; 103

Even now it is only rarely and very imperfectly that the different Government administrations are influenced, in fixing or altering the conditions of employment—at any rate, so far as the great mass of manual workers and the humblest grades of clerical workers are concerned—by considerations essentially different from those which influence any large and sensible capitalist employer, intent on making his industry permanently profitable to his partners and himself. Any differences between the State or Municipal service and capitalist employment, especially so far as the humbler grades of employees are concerned, are due more to the essential differences between the two services than to any conscious and deliberate amelioration of the conditions in the interest of the producers. . . .

With regard to the methods, remuneration and workshop discipline, we do not find, so far as the manual workers are concerned, that—apart from the workmen here and there put on the permanent establishment with scales of pay and pension—State or Municipal employment has introduced any important innovations on the practice of the Capitalist. Time work and piecework, fines and deduction, fixed stints and "speeding up" prevail in Woolwich Arsenal and the Army Clothing Factory, on the tramways of the Glasgow Town Council, and in the workshops of the London County Council, in the Belgian Government workshops, and on the Prussian State Railways, much as they do elsewhere. . . .

In one respect, indeed, the manual working employees of the State or Municipality are usually worse off than their colleagues in the service of the capitalist. Trade Unionism among public employees is, as yet, only grudgingly tolerated. Hardly any of the State or Municipal Governments of the world is prepared

whole-heartedly to admit the right of employees to combine for the maintenance or improvement of their Standard of Life. . . . In Belgium and France, whilst Trade Unionism is now grudgingly allowed to the artisans in State employment, it is peremptorily denied to the school teachers and others regarded as " functionaries." The legal position of the railway and postal servants in this respect is equivocal, and always liable to attack. Even in the United Kingdom, Australasia, and the United States, where State and Municipal officials of all grades are, except in the police force, nominally allowed to combine, it is still rare for the Municipal Authority or State Department concerned avowedly to recognize the Trade Union, to consent to receive complaints from its officials, or in any way to negotiate with them with regard to the conditions of employment. . . .

But it is not Trade Unionism only which is, to a greater or less degree, forbidden to the manual workers in public employment. The State or Municipal employer often claims to exercise over their actions, and even over their opinions, an authority on which scarcely any capitalist would nowadays dare to venture. . . . In the Belgian Government Service the railway and postal servants find themselves forbidden to join the Co-operative Societies which are affiliated with the Parti Ouvrier Belge. It is alleged that French Government employees have been made to suffer because they went to Mass, whilst others have certainly lost their employment for belonging to Socialist organizations. In the United Kingdom, as in the United States and Switzerland, complete liberty of opinion is allowed to State and Municipal employees. . . . But though opinion may be free to all, to the manual workers action is not, and not even expression. Thus the Trade Unionism of public employees is not yet left unrestricted even in England. As recently as 1914 the Postmaster-General, without resorting to a libel action, and without pretending, indeed, that any ground had been afforded for such an action, publicly notified the Postal Officials Association that he could not permit criticism of the postal administration, especially of the conduct of the higher officials of the Department, whether contributed by members of the service or by other persons, to continue to appear in the monthly journal of that Trade Union. It is difficult to imagine even the most arbitrary capitalist employer in the engineering or shipping industry thinking himself warranted in peremptorily notifying to the Amalgamated Society of Engineers or the Seaman's Union that he would not permit criticism of his administration or of his managers to appear in the journals of those Trade Unions. . . .

In most countries it is usual for persons in the employment of the State or municipality to be subjected to restrictions on their

political rights as citizens. Hardly ever do we find it permitted to a State official, and very rarely to a municipal official, whether of high rank or low, that he should stand for election and hold office as an elected representative in any council or legislature. . . .

But it is not merely candidature for, and membership of, elected Councils that is forbidden to the Government employee. In France it has frequently been alleged that all State officials, and sometimes even Municipal officials, are required to vote for "the candidate of the Administration," under penalty of dismissal if they are known to disobey. . . . With regard to public criticism of Government acts or omissions, it is, we think, a well-grounded rule of conduct for an employee in any administration, public or private, that (if only because he must not put himself under the suspicion of using confidential information) he ought never publicly to criticize or discuss the action *of his own department*, or publish anything on the subject. But Governments go further. Even so democratic a State as New South Wales allows its Public Service Board to ordain, not only for its own Civil Servants of all grades, but also for all employees of "corporate bodies immediately controlled by the Government of the State," that no officer shall "publicly comment upon the administration of any department of the State." Thus, a New South Wales railway guard must not complain in public about the inefficiency of the Post Office in failing to deliver his letters, nor may a postman criticize the curriculum of the State schools to which he has to send his children!

13. GENERAL CONCLUSIONS

The survey made in the preceding pages might be elaborated by adding sundry other observations, but what is omitted here is of less importance and other points will be dealt with as they arise in succeeding chapters. From what has been said, we draw the following conclusions in regard to the leading features of the State control of industry in France, Italy, Austria, and Japan, as illustrated by business methods and results in tobacco manufacture and trade:

1. It is not necessary to establish a State Monopoly and prohibit freedom of manufacture and sale in order to obtain substantial revenues from an article it is desired to tax;

2. Comparisons between the revenues from a taxed commodity obtainable respectively by the method of State Monopoly where manufacture and sale have been nationalized, and by the method of specific taxation where the industry is free, demonstrate that State Monopolies are relatively less productive for a given average rate of taxation imposed on the consumer;

3. Such revenues as the State Monopolies succeed in obtaining have, in general, reduced average consumption to a relatively low level as compared with consumption elsewhere, indicating that the non-Monopoly countries retain greater scope than the Monopoly countries for increased revenues in the future;

4. These considerations leave out of account the incidental revenue derived from normal income and property taxation for both national and local purposes to which the industry in non-Monopoly countries contributes in the ordinary way of business; if added to the revenue yield from specific taxes in the non-Monopoly countries such taxation would appreciably influence the figures of total revenue in their favour; the Monopolies, being State undertakings, are exempt from local and national burdens;

5. The officially-reported Monopoly revenues are moreover based on faulty methods of accountancy and are obviously in excess of the profits as they would be were all expenditures, properly chargeable against the profit-making administrations, included in the balance sheets;

6. The Monopoly profits appear to be enhanced by the free exercise of the arbitrary powers possessed by the State as purchaser, producer, and distributor

of goods; raw material is utilized which is cheaper than and of inferior quality to that employed in manufacture in non-Monopoly countries; female labour predominates in the State factories; wages paid are not above the level obtaining in other industries; and there is a tendency to reduce retail discounts to a minimum;

7. The system of taxation by means of State Monopoly easily lends itself to the disability that taxpayers are unable to check arbitrary price-fixing by officials in charge of the administration and can have little or no control over the fiscal operations of the Exchequer, however democratic the constitution of the Government may be;

8. A characteristic of State production is the limitation in the assortment of goods offered for sale, so that the consumer has little opportunity to make a selection according to his taste; at the same time, the staple brands produced at the State factories cannot always be depended upon, since they may on occasion (without any diminution in price) be altered in weight or size or may be depreciated in value by the substitution of lower-grade raw material when the supplies of the raw material usually employed are deficient;

9. Judged by the nature of raw material normally employed and by the opinions expressed by consumers, the bulk of the manufactured goods provided by the Monopolies is of inferior quality, and this judgment is confirmed by the stagnation in the export trade, notwithstanding active efforts to develop foreign markets;

10. Factory conditions under the State Monopolies and the status of retailers, who are bound to the observance of strict regulations and are under

constant official surveillance, give rise to numerous grievances and sectional agitation, the less desirable because the State itself is an interested party;

11. The practice of using the retail selling rights as an outlet for State patronage and as a substitute for military and civil pensions places the control over retail business in the hands of privileged persons whose interests as holders of sinecures are frequently in conflict with the interests of the shopkeepers actively engaged in the trade;

12. External trade in importation and re-exportation of foreign merchandise is non-existent; the laws protecting the State Monopoly result in shutting down entirely this opportunity for profitable commerce;

13. The cultivation of the raw material is subject to so many influences, alternating between administrative encouragement and administrative prohibition that no positive opinion can be formed as to its economic stability; it makes little progress; and the cultivators (except to some degree in Hungary) find no market for their produce abroad;

14. Finally, there is no evidence that the fact of government control of the industry in question improves the lot of those who have to earn their living by the industry, gives any particular satisfaction to the purchasers of the article produced, or specially enriches the Treasury; while from the point of view of the community generally, there is nothing to show that the existence of State Monopoly in commercial enterprise has any bearing whatever, far less beneficial influence, upon social conditions, individual welfare, or national prosperity.

CHAPTER III

The State Tobacco Monopoly in France: History and Organization

1. HISTORICAL SKETCH

App. V; 2; 4; 13; 17-18

The idea of treating the manufacture and sale of tobacco as a Government Monopoly dates back in France to the year 1674 when a Tobacco Monopoly was introduced by the Finance Minister Colbert as one of his many expedients for restoring the ruined condition of the national revenues. Following the custom of the times the Monopoly was leased to farmers of the revenue and, except for the two years 1719 and 1720, remained in force until 1791, when it was abolished by the Republican Government. It gave place to freedom of production and sale although importation of manufactured goods was forbidden; revenues were derived from Customs duties on leaf and from various internal taxes and licences. This continued until July 1, 1811, when the present Government Monopoly, operated directly by the State, was established by the imperial decree of Napoleon I., dated December 29, 1810. The exclusive privilege thus conferred on the Government was confirmed by Parliament in 1816 and prolonged till 1821. It has since been repeatedly renewed for stated periods, a special law being required for its continuance at the expiry of each period. The statute of December 26, 1892, however, made the Monopoly a permanent concession to the Government without need for further

renewal. Since 1811 the organization and administration have undergone sundry changes rendered necessary from time to time, but in all that is essential it is the Napoleonic system which has ruled in France to the present day.

In 1835 and again in 1872-5 the Monopoly was the subject of inquiry by Parliamentary Commissions, instituted as the result of many publicly expressed complaints not only against the management of the Monopoly but also against the quality of the goods sold. The investigation of the 1875 Commission provides much instructive information concerning both the internal organization and the general business principles by which the Administration is guided. Opportunity will be taken to quote at some length from the reports of this Commission.

Napoleon re-introduced the Government control of the tobacco industry purely as a fiscal measure, and in view of its subsequent financial results it is interesting to find it stated in the preamble to his imperial decree that 'without increasing the taxes upon our people, we shall get a source of revenue which can be estimated at about 80 millions'. Nothing is said as to the basis upon which the calculation of 80 millions was made, but the facts are that for the first four-and-a-half years the net revenue was 59½ million francs or an average of only 13¼ millions per annum, and it was not till 1845, or thirty-four years afterwards, that the income from the Monopoly reached 80 millions.

2. ADMINISTRATION

Since 1860 the Tobacco Monopoly, or Tobacco *Régie* as it is frequently called, has been controlled

by the two Government Administrations (under the Finance Ministry) known as the *Direction générale des manufactures de l'État* (the State Factories Administration) and the *Direction générale des contributions indirectes* (the Indirect Taxes Administration). The State Factories Administration controls and superintends the cultivation of home-grown tobacco, makes the purchases of the home-grown leaf and of foreign imports, and is the authority in charge of the factories. The distribution and sale of the manufactured products through the wholesale stores (*entrepôts*) and the retail shops (*débits*) are looked after by the Indirect Taxes Administration, and its officials perform the functions (in addition to other duties) of surveyors and collectors of the tobacco revenues.

The State Factories Administration (which controls also the State manufacture of matches) and the Indirect Taxes Administration are governed, as are all national and spending revenue services (Customs, Direct Taxes, &c.), by distinct Central Administrations under the Ministry of Finance. Attached to the Central Administration of the Factories, the Government maintains an appraisement office (*service de l'expertise*), a technical school and chemical laboratory, and a department for supervising buildings and constructions. The appraisement office takes charge of the leaf purchases, examines the samples, &c., and performs all the duties of expert buyers in the trade.

3. CULTIVATION AND PURCHASE

The State Monopoly does not embrace the actual cultivation of tobacco. The leaf-growing industry is in private hands, the planters being obliged to observe numerous regulations which

serve to secure the control by the *Régie* over the whole of the produce and to prohibit any appropriation of tobacco leaf to private use. These regulations, which are very strict and often vexatious, are too lengthy to be dealt with here, but a general description of them will be found in Appendix II, which traces at the same time all the operations of the planters from the moment they get official sanction to plant until the delivery of their crops to the warehouses. Cultivation has always been limited to certain parts of the country, the restriction being necessary in order to keep down the costs of surveillance and inspection. In the year 1912 the growing of tobacco was permitted in only twenty-eight of the eighty-six departments, or administrative districts, into which France is divided.

App. II

App. I; Table 18

The Administration receives a portion of its raw leaf requirements from Algeria and maintains in that territory three warehouses and a staff of special agents to effect purchases. Algerian tobacco is classed with French tobacco as 'indigenous leaf,' although the planters are not under the control of the Monopoly. The mutual relations are those of private parties.

The purchase of imported leaf tobacco and imported manufactures is effected partly through the ordinary channels of commerce by contract or by private purchase, and partly through French consuls abroad, who buy direct from the producers. By regulations dated June 28, 1910, and March 30, 1914, foreign manufacturers are granted the right to sell cigarettes and cigars in France through the Monopoly under certain conditions. The goods must be stored at the suppliers' risk and account, and are paid for by the Monopoly as

App. V; 11

sales are made to consumers.[1] By this arrangement the French *Régie* has established the system which holds good for all manufactured products imported into Italy and Spain through the respective government monopolies.

Consumers are allowed to import tobacco on their own account, subject to the limitation that the quantity so imported must not exceed 10 kilogrammes (22 lb.) per annum for each person. The Customs tariffs on such imports are very heavy, being equivalent (in 1912) to 27*s.* 3*d.* per lb. on cigars and cigarettes, 13*s.* 7½*d.* per lb. on Levant smoking tobaccos, and 6*s.* 6½*d.* per lb. on other tobacco. It is on the basis of these tariffs that the Administration fixes the selling prices of its own importations, whether purchased outright or under the system of account-sales described above.

App. V; 13

App. I; Table 9

4. RAW-MATERIAL WAREHOUSES

All leaf tobacco is delivered first of all to the raw-material warehouses (*magasins*) of which there are thirty-two, some belonging to the State and others being rented. Five of these warehouses—at Bordeaux, Dieppe, Dunkirk, Havre, and Marseilles—are used specially for the storage of imported leaf tobacco, and are called 'transit' warehouses. The remaining twenty-seven (including the three in Algeria) take delivery of the home-grown and the Algerian tobacco, and are known as the 'cultivation' warehouses.

App. V; 1

The indigenous leaf reaches the cultivation warehouses in a very raw state. It has to undergo

App. V; 4, 13

[1] The Monopoly stipulates that each brand of tobacco imported under this agreement must, within three years, return a certain minimum net profit to the State (in the case of cigarettes 40,000 francs—£1,600) otherwise the sale of the brand is suppressed.

extensive treatment such as threshing, sorting, curing, desiccation, stripping and baling. The maturing of the leaves requires from six to seven months in the South and from eight to nine in the North. The butts are destroyed, but the strips and lower and stronger portions of the stalks are packed separately and are used for the production of the cut tobaccos sold in the fiscal 'zones' at reduced prices. After the stripped leaves are baled, they remain in the warehouses for several months longer, so that fifteen or sixteen months elapse between the harvest and the delivery of the tobacco to the factories. The expenditure in connection with these operations, to which must be added the loss in weight due to desiccation and to destruction of waste, is considerable and should not be overlooked in any comparison between the cost prices of indigenous and of imported raw material. It is part of the charge that has to be incurred in fostering the production of the home-grown article.

App. I; Table 4

5. MANUFACTURE

App. V; 1; 4; 13

The factories are twenty-one in number and all belong to the State. The products manufactured comprise cigars, cigarettes, cut tobaccos, smoking and chewing plug and twist, and snuff. At one factory (Reuilly, Paris) manufacture is confined to the production of the dearer sorts of cigars. All the operations are conducted according to fixed rules and regulations issued by the Central Administration, which addresses once a year instructions to the directors of the factories as to the different kinds and qualities of leaf they shall order from the warehouses. One of the objects of this central control is to avoid any difference in the composition or quality of the staple products sold by the

Monopoly. The arrangement means in effect that there is one national manufactory with branch factories distributed over the country and all turning out the same grade of goods. It has the disadvantage of the special transport of raw material, particularly to those districts where tobacco growing is prohibited; but the chief drawback is that there is no opportunity for stimulating productive enterprise and catering to the varied tastes of individuals. These advantages are possible only where each factory has free access to its raw materials, can exercise independent judgment as to what it can best produce, and enjoys the liberty of finding customers for its goods in any part of the country.

6. UNIFORMITY OF PRODUCTS

The Parliamentary Commission of 1875, on the contrary, in discussing this subject, says (on p. 78):— App. V; 4

It is a most complicated problem to organize on a grand scale the economical production of goods intended to satisfy an artificial desire, which varies from one person to another. It is a question whether the proper course is to indulge and encourage differences in tastes by allowing the products to differ from factory to factory. Experience has proved that such a system is not suitable, and that it is preferable to aim at as complete a uniformity as possible. As a fact, whenever improvements are made in any one establishment the goods produced there enjoy so much preference that the Administration is obliged immediately to alter manufacturing methods in the other establishments at the risk of finding the demands (upon the successful factory) exceeding the requirements of the region which alone it is equipped to serve. Moreover, since railways have made transport an easy matter, it is no longer necessary to classify tastes according to geographical boundaries. Considerable differences in the products of the various factories, far from satisfying consumers, would only cause them confusion and annoyance while they would alter the bounds [allotted to each factory for its output]. Further, since custom to a great

extent moulds the opinion one forms as to the quality of cigars or of tobacco, sudden changes, either in the composition or in the make-up of goods bewilder the smoker and are likely to lead to a check upon consumption.

For all these reasons the Administration has been induced to secure uniformity among the various products of the same nature produced by the different factories. With this object in view, for each product wherever made, the same raw materials are used and in the same proportions. The situation of a factory with respect to the districts where tobacco-growing is authorized does not alter matters, since an establishment in the centre of even large plantations utilizes no greater proportion of the crops grown in its neighbourhood than another standing at the other end of France.

7. FIXATION OF PRICES

App. V; 95, Vol. I, p. 167

In virtue of Article 177 of the Law of April 28, 1816, the President may by administrative decree determine the prices at which the various kinds of tobacco shall be sold. In practice, however, and on the ground that such changes have the character of increased taxation, the Finance Minister does not feel free to proclaim a *general* alteration in prices without referring the matter to Parliament. In such event, changes are effected either by a special law (*e.g.* the Act of February 29, 1872) or are decided in connection with the Budget as an integral part of the Finance Act. The method of the administrative decree is used to fix the prices of new brands introduced from time to time or when it is desirable to make changes of less importance. The Monopoly acts for instance on its own initiative when an increase is demanded by higher costs of production or of raw material. But when a general increase is demanded to meet the requirements of the Finance Minister, details are left to the Administration; and for procuring the increased profit from the Monopoly the actual price is adjusted so as to approach more or less the

limit beyond which consumption would be in danger of diminishing. Prices are thus fixed purely by fiscal and commercial considerations. They are not figured on any given percentage of cost prices or other values, and neither Government nor Parliament prescribes any systematic standard.

8. EMPLOYÉS OF THE 'RÉGIE'

The staff employed by the State Factories Administration is divided into three categories: (1) the *Personnel commissioné*—permanent civil servants who comprise the agents and computers employed in supervising the plantations, the managers of the warehouses, and the managers, engineers and officials in the factories; (2) the *préposés*—foremen, forewomen and overseers of workpeople; and (3) the *personnel ouvrière*—the men and women labourers, for the most part engaged as piece-workers. Women predominate among the factory workers in the ratio of more than six to one. The workers contribute one per cent of their wages to the old age pensions fund, while the Administration contributes to that and other philanthropic services, including sick-relief, bonuses, compensation for accidents, &c., a sum which is equivalent to 16 per cent of its expenditure on wages paid direct to its employés.

App. I; Tables 3, 14

9. WHOLESALE STORES

When the tobacco is delivered from the factories it passes into the control of the Indirect Taxes Administration. The monopoly of the sale is carried on by means of intermediate agents called storekeepers (*entreposeurs*) who supply the retail shops with their requirements and by retailers (*débitants de tabac*) who supply the public. Some kinds of cigars,

App. V; I: 13

cigarettes and tobacco are in exceptional cases delivered direct by the storekeepers to private persons on given conditions and at current retail prices.

There are in France 357 wholesale stores, most of them rented by the State. The storekeepers in charge are appointed sometimes by decree, and sometimes by order of the Minister of Finance, according to the size and importance of the store. They are remunerated in the main by fixed salaries and generally combine with their duties those of the principal or some particular receiver of indirect taxes. In certain large towns there are special storekeepers who attend to nothing but the management of the store.

Supplies must in every case be drawn exclusively from the factory specified by the Administration and must be regulated in such a manner as to maintain stocks constantly in proportion to the consumption in the district. Tobacco is sent to the storekeepers with a Customs permit which is cancelled, after inspection of the consignment, by resident officials in the executive service of the Indirect Taxes Administration. Deliveries are made to the retailers on receipt of orders accompanied in every case by cash, storekeepers being forbidden to sell on credit under any pretext whatsoever. The minimum of each purchase by the retailer is in principle 10 kilogrammes (22 lb.) but it may be reduced by the director of the Administration in the case of small shops that do little trade. The retailers have to supply the sacks in which the tobacco is conveyed to them.

App. V; 1; 4; 13; 17; 23

10. TOBACCONISTS

The State control over tobacco being extended to the retail sale, special arrangements are required

for establishing tobacconists' shops. The Central Administration decides whether in any given district the privilege of sale shall be granted or withdrawn and it is left to the director of the Indirect Taxes Administration to decide where, in that district, the shop shall be situated. These arrangements are necessary in order to give each seller a monopoly within a given radius and to conserve the stipulated annual income of the shop, which of course varies according to the density and wealth of surrounding population.

The total number of shops varies from time to time according as the Administration finds it necessary to make adequate provision for local consumption and to open or close shops as population changes. In 1912 there were altogether 47,500 shops, some being what are called *débits simples*—ordinary shops not attached to any other administrative office—and others what are called *recettes débits*, in connection with which other official duties must be performed. There are in addition a number of sub-shops (*sous débits*) at railway stations, &c., attached to parent shops and sharing the income with them.

11. APPOINTMENT TO THE SHOPS

The right to sell tobacco is a privilege granted only to certain deserving persons, the income from the monopoly value of the shop being a substitute for or an addition to a State pension, and its amount determining to whom the shop will be granted. Applicants and nominees for vacant shops are divided into four classes, according as they are (1) retired higher-grade officers, or lower grade officers with distinguished service, or higher civil service officials, or the wives, widows, or orphans of any of these; (2) retired lower-grade officers, or

lower civil service officials, or the wives, widows, or orphans of any of these; (3) invalided soldiers; and (4) persons who have done any proved act of bravery or self-sacrifice in the interests of the community.

The appointment is made by the Minister of Finance when the annual income amounts to or exceeds 1,000 francs (£40), and by the local Prefects when it is less. The Minister is guided in his selection by a parliamentary commission. The local Prefects are assisted by district commissions for each Department.

12. RETAIL COMMISSION

The prices paid by retailers to the storekeepers are fixed by the Administration, and the difference between these prices and the retail selling prices is the profit of the shop. It frequently happens that the persons who obtain the privilege of sale do not care or have not the ability to conduct the business themselves. With the permission of the Administration they rent or lease their location to tradesmen proper in exchange for an annual rent or royalty; but the manager so appointed must be approved by the authorities. When this takes place the profit of the shop is shared between the nominee and the manager, the former retaining his royalty, which varies according to the monopoly value of the shop. Where the ***Régie*** has no nominee for a shop the business is run by a manager, who pays direct to the ***Régie*** the royalty which would otherwise go to the nominee.

13. DUTIES AND OBLIGATIONS OF RETAILERS[1]

The tobacconists are subject to numerous rules and regulations and are under the constant sur-

[1] See particularly *Le Débitant de Tabac*, April 10, 1913.

veillance of the officials of the Indirect Taxes Administration. They are bound among other obligations to obtain their supplies only from the wholesale store assigned to them by the authorities; to arrange their tobacco according to price and quality; to display in their shops a schedule of prices; to have always in hand certain prescribed stocks of tobacco; and to co-operate in every way with the Administration in the repression of fraud. They are further expressly forbidden to obtain supplies from or to sell to other retailers; have on their premises any instrument for manipulating tobacco; sell tobacco at any other than the tariff price; steep tobacco on any pretext whatsoever or alter it by mixture of various qualities; make cigarettes from tobacco except for their personal use. They are discouraged from giving special prominence in their windows to foreign products, a practice seemingly so frequent that it called forth from the Administration of Indirect Taxes a circular (dated February 20, 1912) advising district directors that the custom was prejudicing the success and good name of French products; and instructing them to have their officials see that retailers gave no such preference to foreign products.

App. V; 23, No. 223

Public activity of certain kinds is debarred. The State Council confirmed the decree of the Prefect of *Seine et Oise* evicting a managing retailer by name Barré for taking up a militant political attitude and allowing his premises to be used as a meeting place for representatives of the anti-republican party. The Council declared that a retailer is to be regarded as an associate with the State in the conduct of its Monopoly and is bound by certain duties to which the ordinary citizen is not subject. 'The Minister of Finance can, in the absence of

App. V; 22, Dec. 1913; 23, No. 222

any legislation or regulation to the contrary, empower the Prefects, subject to his approval, to decree the eviction of tobacconists for political agitation likely to cause injury to the good conduct of the business (*de nature à porter atteinte au bon fonctionnement du service*).'

Retailers are public officials and as such their stocks of tobacco are *extra commercium*. They do not pay the 'patente' (the equivalent of the income tax) nor the tax on doors and windows, although the additional value the selling of tobacco gives to any other business they carry on is considered in the assessment to the 'patente', much in the same way as in the United Kingdom the rateable value of a shop is influenced by its being at the same time the local post-office.

App. V ; 17, p. 340

14. THE FRENCH 'DÉBIT'

The journal *Le Tabac* of 3rd May, 1914, provides a contrast between the English and the French tobacco shop, with which we may suitably conclude our general description of the Monopoly and its trade :—

> As soon as the Frenchman crosses the Channel and puts his foot on English soil, he is struck with wonder at the number, the diversity, and the magnificence of the 'tobacco stores'. One has the feeling of sudden freedom, of being relieved of something which caused an indefinable discomfort in France. The Tobacco Monopoly endured here, we admit, without question, appears to us when we are on the other side as a burden and a weight . . . It is certainly a surprise to enter a store in England and meet the salesman who thoroughly knows his business, who can discuss colour of a cigar, its wrapper, its source, its leaf, and its cut, and who has not been taught in the Government technical schools. We are persuaded that our friends the English, in their frequent visits to our country, must go through just the opposite experience. The official character of our shops must astonish them, while the almost 'sacrosanct match' must be an object of curiosity.

There are certain other questions regarding organization and management which it will be more convenient to discuss in the next chapter dealing with the financial and industrial results from the Monopoly.

CHAPTER IV

The State Tobacco Monopoly in France: Financial and Industrial Results

App. I; Tables 3, 4, 7, 11
App. V; 1 *passim*

1. THE REVENUE FROM TOBACCO

The profit in 1912 from the State Tobacco Monopoly, as reported in the official accounts (*Compte de l'exploitation du monopole des Tabacs*) was £17,421,300, being equivalent to 8*s.* 10·3*d.* per head of the population[1] and 3*s.* 7·2*d.* per lb. of tobacco sold. The Monopoly has provided continuously increasing revenues, due partly to increasing consumption and partly to repeated increases in selling prices. To go no farther back than ten years, a comparison with 1902 shows the following developments:—

	1902		1912	
Population	38,366,350		39,312,700	
Reported profit	£13,577,300		£17,421,300	
Monopoly sales in France, lb.	84,217,200		94,945,700	
Consumption per head	2·17 lb.		2·41 lb.	
Cost of production per lb.	9·3*d.*		10·1*d.*	
Price per lb. to retailers:—		% of total sales		% of total sales
'De luxe' tobacco	7*s.* 11·7*d.*	15	9*s.* 3·0*d.*	18
Tobaccos of current sale	4*s.* 2·3*d.*	59	4*s.* 2·4*d.*	61
Sold in the 'fiscal zones'	1*s.* 1·7*d.*		1*s.* 5·4*d.*	
Canteen tobacco	5·7*d.*	26	5·8*d.*	21
Hospital tobacco	7·1*d.*		7·1*d.*	

[1] Accepting figure of population as stated in the Report of the *Régie*, which was the 1911 census and excluded Corsica; see Notes on p. 76, and to Tables 1 and 2 (App. I)

It will be seen from these figures that the increased profits have been accompanied by greater consumption in bulk and by higher selling prices. The increase in price has affected almost entirely the tobacco called 'de luxe', the other qualities from their nature and purpose not lending themselves to any great change. The course of prices and the classification of the tobacco as indicated above will be discussed later; meanwhile the most important matter claiming attention is the revenue attributed to the Monopoly. For reasons to be explained it is necessary to make a considerable reduction from the reported profit, to credit some part of the difference to other revenue producing agencies, and to cancel the rest because it is made at the expense of other State departments.

2. EXPENDITURE NOT ACCOUNTED FOR

App. I; Table 4; App. V; I. pp. 8–11: 5: 10: 13–16

The most cursory glance at the expenses charged against the *Régie* reveals the absence of items which any ordinary industrial undertaking would have to bear—such as rent of land and buildings, interest on capital, national and local taxes, and insurance. These charges are probably omitted from the accounts of the *Régie* because no such cash outlay is made in its behalf by the Treasury; the *Régie* takes cognizance only of the sums with which it is actually debited. It might be argued also that as the State owns the capital and stock there is no occasion to isolate rent, interest, and taxation as charges which should be entered in the accounts of a State department. Even if the latter point is granted, it does not dispose of the question of ascertaining how much revenue the *Régie* provides *as a trader in tobacco*, keeping that quite clear from revenues which the

State would obtain in any case whether the Monopoly were in existence or not. It is only after such elimination that a fair comparison can be made between taxation imposed by a State monopoly and taxation levied by other methods.

App. I; Table 25

Rent and interest are charged against the Italian Tobacco Monopoly and this partly explains both the higher cost of production and the smaller profit in Italy as compared with France. As to national and local taxes, there is such complexity in the nature of the imposts in France and in their assessment that it is impossible to make even an approximate estimate of their amount. But the exemption of the *Régie* property from taxation is an essential addition to its profits, and it is a factor which would have to be reckoned with if by inversion the whole concern was considered to be in private hands, contributing like other businesses to the taxes, and if the problem was to calculate the financial results of nationalizing the industry. In this connection we might instance the fact that in the United Kingdom the Treasury gives grants to the local authorities as compensation for the exemption of Government property from local rates. And undoubtedly part of the subsidies granted to the Departments and Communes by the Central Government in France must be set against the exemption of the factories and warehouses, for if they paid their contribution the subsidies would be so much less.

There are other kinds of expenditure not borne by the Monopoly but nevertheless incurred in its behalf or for its protection at the cost of the general revenues of the State. The *Régie* enjoys gratuitously the services of the Indirect Taxes Administration, which, as already explained,

collects the receipts and inspects and supervises the stores and the retail shops. The Treasury and the Court of Accounts have to examine and pass the financial statements of the *Régie*, performing duties for which an ordinary business would have to employ experienced managers and accountants. The selection and nomination of the tobacco sellers by the Finance Minister and the Prefects, acting in conjunction with the classifying commissions, cannot be done without public expense. The Customs provide valuable services free of charge. The railways convey the tobacco at specially privileged rates. The Post Office is not paid for the transmission of letters and telegrams, and the telephone is free. The last items can only amount to very little, but they must cost the State something, and if the principle of the fairy godmother is admitted in one department there is no reason why it should not be extended to others, with the services of factory workers and raw material generously provided free by the State just as it provides stamps, telegrams, and postmen's services for nothing. Accounts might just as well be presented showing the profit from the Monopoly to be its gross receipts and so have done with the matter, instead of making a perfunctory attempt to charge up only some part of the expenditure the Monopoly obliges the State to incur.

3. RENT AND INTEREST

It would be a difficult problem to calculate the money equivalent of all these privileges and exemptions, and it will not be attempted here. The main items can at least be estimated with some degree of accuracy.

First, as to rent and interest. The value of land and buildings at the beginning of the year 1912 was £1,704,250, which is stated by the Administration to be carefully assessed every year. It includes the value of land given free by local authorities and of buildings erected at their cost in order to attract the industry to the neighbourhood. It is property which, belonging to the State, would provide a rent in any case, and the rent from it has nothing whatever to do with the revenues from the Tobacco Monopoly as such. The rental value, at say 5 per cent, £85,200, therefore falls to be deducted from the profit of the *Régie*.

App. I; Table 5

App. V; 4, pp. 22, 107

The rest of the capital, comprising plant, machinery, furniture, and stock in hand was valued at the beginning of the year at £4,608,950, and its use by the *Régie*, without interest, is equivalent at 5 per cent to an annual gift of £230,450.

App. I; Table 5

Were the *Régie* a private company it would require to have a large floating capital to make periodic cash payments, but being a State monopoly it holds State funds at its service and enjoys a kind of unlimited credit. The appropriations for purchases, wages, &c., voted out of the Treasury in 1912 amounted to £4,096,350, but as these disbursements are continuously being translated into or offset by sales, it would not be correct to treat the whole amount as an annual loan. Some part, however, of this money does represent State capital permanently out at interest, and whatever it would earn by being loaned to borrowers in the open market should be charged against the Monopoly as a part of its expenditure.

App. V; 1, p. 57

4. COSTS OF COLLECTION

The contention that a quota of the expenditure incurred by the Indirect Taxes Administration

should be charged to the *Régie* cannot be disputed. Justification for the contention is afforded by the conditions obtaining in Italy, where the Monopoly is debited with £263,000 as its quota of the expenses incurred by the excise officials under the *Guardia di finanza*. In France the Indirect Taxes Administration employs 11,121 persons who survey and collect not only the revenues from tobacco but also the revenues from other State Monopolies and from numerous indirect taxes, excise duties, licences, &c. The total revenue collected by the Administration in 1912 was £56,216,550; the total expenditure on salaries and personnel alone (*i.e.*, excluding office and establishment expenses) was £1,590,850. The ratio of the revenue to the expenditure was as 35·3 to 1, and if the expenditure were apportioned in this ratio against the revenue collected for the Tobacco *Régie* (£21,369,020) the result would show that the collection of the revenue cost the State £605,300. From this there is to be deducted the sum of £34,550, being the salaries and clerical expenses at the wholesale stores, an item with which the *Régie* is actually charged since the stores belong particularly to its Administration. It seems a legitimate procedure also to charge the balance against the *Régie*, omitting as being impossible of calculation the quota of establishment expenses (buildings, rents, material, &c.) incurred by the Indirect Taxes Administration. The result is to write off a further £570,750 from the profits of the *Régie*.

Chap. VI; § 7

App. I; Table 21

The uncharged costs of administration might be pursued further by inquiring how much of the £1,521,100 spent on the department of Customs should be attributed to the protection of the

App. V; 5, p. 119

Monopoly, not only along the coasts and frontiers but also within the fiscal ' zones ' where tobacco is sold at specially reduced prices. The Monopoly is, moreover, responsible for some part of the expenditure on the three central departments, the Ministry of Finance, the Treasury and the Court of Accounts, which amounted in 1912 to £761,750. But a proportionate charge against the Tobacco Monopoly out of the expenditure on Customs and on the Central Departments cannot be estimated owing to the absence of any reliable data for calculation.

App. V; 5, pp. 81, 85, 89

5. SPECIAL RAILWAY FREIGHTS

App. V ; 10

Turning to the cost of transport, the special railway rates already referred to are in accordance with the agreement made on December 22, 1885, between the State Factories Administration and the Railway Companies, and are quoted in the Appendix side by side with the tobacco freight charges on the Belgian and Prussian State Railways. The rates on the French State (formerly Western) Railway have not been ascertained. The Companies in France are concessionaires and not owners of their lines ; they benefit by the financial support of the State, the direct annual subvention in 1912 amounting to £1,046,450 ; and they are led in return to grant the State extensive advantages. If, then, tobacco is carried at specially low rates, there is on the one hand a diminution in the normal gain to the Railways (which is compensated by the subvention) and on the other hand a fortuitous increase in the profit to the *Régie*. At any rate, some department or some group of taxpayers has to find the £1,046,450 which helps the railways to grant peculiar privileges to the State manufactures. The accounts of the *Régie* do not state the distances

App. I; Table 22

App. V; 5, p. 50

over which tobacco has been transported; if the information was available it would be possible to apply the higher Belgian and Prussian rates and arrive at some idea of the benefit the State Monopoly thus enjoys at the cost of the State itself.

6. NON-MONOPOLY REVENUES

Some of the revenues cashed by the *Régie* ought to be set apart as purely incidental, in so far as they are receipts which would reach the Treasury without there being any necessity for a Monopoly. The profit on imported manufactures, for instance, is essentially a Customs tariff, and is, in fact, based on the duties private importers have to pay; the quantity sold in 1912 was 330,550 lb., and at 19*s.* per lb. the profit was £314,000. The duties on private imports were £31,450; the Corsican Customs duties, £17,750; the royalties on shops not assigned to nominees, £22,650; and the workers' contributions to pension funds, £8,500. The total of the incidental revenue was thus £394,350.

App. I; Tables 3, 5, 7, 9

7. DEDUCTIONS FROM THE PROFIT.

Assembling the several suggested adjustments in the expenditures and the receipts, the profit from the Monopoly should be reduced as follows :—

Profit as reported by the Administration		£17,421,300
Less: Revenues not directly connected with the Monopoly		394,350
		£17,026,950
Less: Rent of land and buildings ..	= £85,200	
Interest on plant and stock ..	= 230,450	
Interest on Treasury credits ..	= ?	
Quota of staff expenses in the Indirect Taxes Administration ..	= 570,750	
		886,400
Profit on sale of 95,713,650 lb. French manufactures ..		£16,140,550

The above table does not include sundry other national expenditure fairly attributable to the Monopoly, such as quota of Customs expenses, quota of establishment expenses of the Indirect Taxes Administration, equivalent of exemption from national and local taxes, quota of State grants to railways, Post Office services, and insurance of buildings and stock.

It is proved, however, that the reported profit from the Monopoly is at least eight hundred and eighty thousand pounds in excess of the true profit, and if the confusion of the relations between revenue and spending departments could be unravelled, the profit might be reduced by a still greater sum. The alleged economy of the control of industry by the State and the profit it is said to produce must be examined in the light of these considerations.

Reducing the net profit to averages, we should be justified in substituting, instead of official data, the following italicized figures for use in comparison with other countries :—

Price to retailers of French-made goods per lb. ..	*4s. 5·5d.*
Net profit on French-made goods per lb.	*3s. 4·3d.*
Cost of production and sale of French-made goods per lb.	*1s. 1·2d.*
Cost of production and sale, less prime cost (4·9*d.*) of raw materials per lb.	*8·3d.*
Monopoly profit and incidental revenues, per head [1]	*8s. 5·0d.*
Ditto, per lb. sold	*3s. 5·7d.*

[1] The figure of 8*s.* 5*d.* is arrived at by taking population as stated in the Official Report of the *Régie*. This was 39,312,700, and was the 1911 census return for France alone, excluding Corsica. It would be more correct to take the 1912 estimated population, and to include Corsica, since the revenue of the *Régie* includes not only sales in Corsica but also Corsican Customs duties. On that basis (population 39,629,000) the net profit works out at 8*s.* 4·1*d.* per head.

The expenditure as reported by the Administration was £4,051,750, but it should be at least £4,938,150 and the difference (£886,400) is equivalent to a shortage of 18 per cent of the total charges made up by including items of expense that have quite clearly been omitted from the accounts.

8. VARIETIES OF GOODS SOLD

App. V; 1, pp. 188–195

Cut tobacco has always constituted the bulk of goods consumed, the proportion having gradually risen in past years until it reached 72 per cent in 1912. Cigars, which in the early seventies made up some 11 per cent of quantity sold, have gradually diminished in ratio and during the past six years have not been as much as 6 per cent of the total. Snuff has likewise fallen greatly, the percentage in the early seventies being 23, whereas in 1912 it was only 11. Plug, roll, and twist have remained fairly constant at between 2 and 3 per cent. The consumption of ready-made cigarettes has, however, gained considerably, the proportion (8·52 per cent) in 1912 being double what it was in 1899. The growth in consumption of cigarettes is better expressed in the actual number sold, which in 1899 was 1,625 million and in 1912, 3,839 million.

The Administration groups its sales into three classes: (1) tobacco de luxe; (2) tobacco of ordinary sale; and (3) tobacco of restricted sale. The distinction between classes (1) and (2) is somewhat arbitrary and is no criterion of the respective qualities, since many cigars and cigarettes called 'de luxe' are no higher in price than the cigars and cigarettes classed under 'ordinary' sales. The tobaccos of restricted sale comprise the 'zone' tobacco, canteen tobacco,

and supplies to public and private hospitals. In 1912 they made up in bulk 21¼ per cent of the total quantity of tobacco sold ; they do not include cigars, or cigarettes. The tobaccos of restricted sale are inferior in quality to the common (and cheapest) brands of ordinary sale, the composition including a certain portion of residue—ribs, stumps, and débris.

App. V; 4, p. 27

The so-called 'zones' lie along the frontier adjacent to Switzerland, Germany, and Belgium, and the object of selling at reduced prices is to counteract the incentive to the smuggling of foreign goods. The number, the area, and the classification of the zones, as well as the prices of sale within each of them are fixed by regulations of the Administration. There are at present three zones. In order to prevent as far as possible the introduction of the zone tobacco into districts where its sale is illegal, the storekeepers are authorized to sell to each shop only a given maximum quantity per annum as determined by the director of Indirect Taxes. The retailers on their part must not sell to one and the same buyer more than one hectogramme (3½ oz.) at a time of the cheapest tobacco authorized for sale in the zone. In addition to the zone arrangements, certain tobaccos are sold at special prices in the district of Gex and in the Department of Haute Savoie (both close to the borders of Switzerland), and these are the same in quality as tobaccos sold elsewhere in France at higher prices.

App. V; 13

App. V; 1, pp. 24–9

Despite the concessions made by the *Régie* to consumers near the frontier, the system does not prevent trade in contraband. Some of the discovered cases of smuggling are quoted in the Appendix and probably many more are perpetrated without being discovered ; smuggling is probably

App. III

inevitable under any system of taxes on commodities and the matter is only mentioned because the work of surveillance and conviction must throw on the State considerable expense, which, however, is never debited against the receipts of the Tobacco Monopoly, although it takes credit for the value oi tobacco confiscated. A writer on the subject of the zones (E. Guichard, Paris, 1903) states that the system of differential prices gives rise to many abuses; most of the tobacco smoked in Gex and Haute Savoie is of Swiss manufacture, and few inns in these parts are without stocks of foreign cigars for the use of their clients.

App. V; 19, p. 84

If a classification of tobacco consumed in France is made according to the price of the various brands quoted in the *Régie* price list, the result is to show that the bulk of the goods consumed is of the very cheapest description. Cigars at 3*d.* and less, cigarettes at less than 3*d.* for ten, and all other tobaccos at 4*s.* 6½*d.* per lb. and less, make up in quantity approximately 90 per cent of the total sales. Moreover of these lower-priced goods, the *Régie* does not supply more than one standard brand of cut tobacco, plug, and snuff respectively. The ordinary cut tobacco (*scaflerati ordinaire*) at 4*s.* 6½*d.* per lb. makes up 45¾ per cent of the total sales, and in addition an inferior quality of the same brand is supplied to the zones, canteens, and hospitals to the extent of 21 per cent of the total sales. There are only eight varieties of cigars sold at from 3*d.* to ½*d* each, and ten varieties of cigarettes at from 3*d.* to 1½*d.* for ten, but this does not mean there is an assortment from which the purchaser may make a selection, since for a given price he can generally obtain only one particular brand. The established policy of the *Régie*, as

App. I; Table 11

App. IV; 1, pp. 26–9

we have seen, is to supply the minimum number of standard articles, all made up according to the recipes of the Central Administration and therefore having a uniform quality and flavour throughout the country. It is only if the consumer is prepared to buy the highest-priced goods, and these mostly of foreign production, that he is free to make a selection to suit his taste.

App. V; 1, pp. 193–5

9. INCREASE IN SELLING PRICES

The tax on tobacco in France is increased by raising the prices of the products sold by the Monopoly. A considerable increase took place after the events of 1870-71, the average wholesale price in 1868 having been 2*s.* 10½*d.* per lb., whereas in 1872 it was 3*s.* 8½*d.* per lb. From 1872 to 1902 the average wholesale price gradually increased to 3*s.* 11½*d.* per lb., and in the last ten years there has been a further marked advance to 4*s.* 5½*d.* The changes and displacements in consumption that have taken place since 1902 as a result of these increases show generally that prices of sale have reached the limit the traffic will bear and that attempts to derive more revenue from particular brands have not been successful.

The Report of the *Régie* for 1903 states that at the end of 1902 the price of 'Maryland' Cut Tobacco (which is the quality one degree superior to the standard *scaflerati ordinaire*) was raised from 16 fr. to 20 fr. per kilo. retail, *i.e.*, from 5*s.* 9¾*d.* to 7*s.* 3¼*d.* per lb. The result was that in 1903 the consumption of tobacco retailed at from 16 fr. to 20 fr. was 4,323,000 lb., as compared with 5,623,000 lb. in 1902; the proceeds from sales at the same time diminished from £1,468,400 to £1,215,700. In the same period there was an increased con-

sumption of the cheaper *scaflerati ordinaire* to the extent of 2,433,000 lb., so that smokers evidently chose to be content with an inferior quality rather than pay the price demanded by the Monopoly.

In March, 1902, the prices of tobaccos sold in the zones were increased as follows, the higher price being the tariff obtaining since then :

	Retail prices per lb.
Cut Tobacco—	
First zone, 1st subdivision ..	6½*d.* to 8¾*d.*
First zone, 2nd subdivision ..	1*s.* 1*d.* to 1*s.* 5½*d.*
Second zone	1*s.* 9¾*d.* to 2*s.* 4½*d.*
Third zone	2*s.* 11*d.* to 3*s.* 3*d.*
Roll and Twist—	
First zone	2*s.* 2*d.* to 2*s.* 11*d.*
Second zone	2*s.* 11*d.* to 3*s.* 3*d.*

The immediate effect of the alteration was to reduce the quantity of zone tobacco from 16,983,000 lb. in 1902 to 14,483,000 lb. in 1903, while the revenue gained by only £25,400. The higher tariff has had permanent results, for even in 1912 the quantity was only 15,135,000 lb. and made up 15¾ per cent of the total sales as compared with 20 per cent in 1902. This falling off in zone tobacco may have had its counterpart in greater consumption of *Régie* products sold at the normal price, but the probability also is that it has been accompanied by the increased consumption of foreign tobacco smuggled across the frontier.

Taking effect in May, 1910, there was a comprehensive revision in prices, hardly any tobacco retailed at more than 4*s.* 6½*d.* per lb. escaping an increase. The result was to decrease both the quantity and value of sales and the revenue was so seriously jeopardized that the *Régie* had to revert to the previously ruling prices where sales had

suffered most. The position is stated in the Report for 1910 as follows:—

> The year 1910 was marked by an increase in the prices of tobaccos de luxe and of certain kinds of tobaccos of ordinary sale. The increased receipts from this change had been estimated at £720,000 per annum, or £540,000 in the first year of operation, *i.e.*, from 14th May to 31st December, 1910. This estimate was far from being realized, for the increase compared with 1909 was £401,760, or only £37,520 more than the average annual increase during the four preceding years, which had been £364,240. The details of the results during the second period of 1910 show that the change in prices induced the consumer partly to discard the articles on which the additional tax had been imposed in favour of the ordinary cut tobacco, the price of which had not been altered. This development became accentuated in the early months of 1911, and was such that its continuance would have brought about decreased profits as compared with the previous conditions. It has therefore been decided to revert to the former prices at least as regards those tobaccos, the decreased sale of which was threatening the interests of the Monopoly.

The Report for 1911 shows that the return to former prices, commencing after August 1, affected the 'caporal ordinary' and the 'caporal superior' tobaccos and the cigarettes made therefrom, which are only slightly superior to the lowest-priced sorts. With these exceptions the higher tariff remained in force. The changes in 1902 and 1910 in driving consumers to smoke increasing quantities of the cheapest goods are illustrated by a table in the Appendix, which also shows how the concession in 1911 was followed by a movement in the opposite direction.

App. I; Table 13

Concurrently with the increased price of better-class goods, the Customs duties on private importations have been repeatedly advanced. Prior to 1902 the duty on cigars and cigarettes was 13*s.* 1*d.* per lb., in 1902 it was raised to 18*s.* 2*d.* and again in 1910 to 27*s.* 3*d.* This is probably the highest tariff

on tobacco existing in any part of the world, but high as it is, it does not prevent some smokers from going beyond the *Régie* for their requirements.

10. RAW MATERIALS AND COST PRICES

It was originally intended that the Monopoly should study the interests of French planters by drawing its supplies almost entirely from them. Although there is now no legal compulsion to do so, the policy of the Administration is to encourage the home industry, but it is affirmed that the quality of the leaf is so inferior, and the expense involved in fostering tobacco-growing is so considerable, that the interests of both consumer and Treasury would be better served if all raw material came from abroad and tobacco growing was entirely suppressed.

App. V; 4, p. 20

App. V; 17, pp. 281–93

For many years foreign leaf has made up about one-half of the purchases, but its proportion varies considerably, since cheaper qualities have to be bought in greater or less abundance to balance the less or greater supply of leaf requisitioned from home cultivation. In 1912 the total purchases were 112,788,850 lb., of which 41,816,800 lb. were produced in France and 5,360,150 lb. in Algeria. Foreign supplies came mainly from the United States, and particulars as to that and other countries will be found in the Appendix.

App. V; 1, p. 184

App. I; Table 6

The prime cost of home-grown leaf in 1912 was 4·72*d.*, of Algerian leaf 2·61*d.*, and of foreign leaf 5·15*d.* per lb. The average prime cost of all raw tobacco purchased was 4·86*d.* per lb. The average cost of French and Algerian leaf taken together was 4·48*d.* per lb.

These prices may be put on record as a basis for comparison with the prices paid for raw materials

in other countries, and by inference as a criterion of quality, but the comparison is subject to certain considerations. In France the price paid for the home-grown article does not represent the value of the leaf alone; it includes a State bounty to the planters which in 1912 was equivalent to from 25 to 30 per cent of the price paid. Since August, 1913, the *Régie* has raised the prices it pays by 10 fr. per 100 kilos. for light, and 5 fr. per 100 kilos. for coarse tobacco, and the bounty will in future be equivalent to 1½*d.* per lb.[1]

The state of preparation in which both the French and Algerian leaf reaches the warehouses is such that the *Régie* has to incur a large expense before the tobacco is fit to be employed for manufacturing. What it involves may be gauged by the fact that while the average joint prime cost was 4·48*d.* per lb., the average factory value at the December, 1912, stocktaking was 5·78*d.* per lb. Imported leaf on the other hand which was bought at 5·15*d.* per lb. was valued in the factories at 5·34*d.* per lb. The expense devoted to drying, curing, and otherwise preparing the Algerian leaf undoubtedly raises the intrinsic value of that leaf correspondingly, since the prime cost is the value in the open market. But it is difficult to say the same thing about the French leaf, as it is bought originally, not at an economic price, but as the result of an obligation the State has undertaken towards the planters. We may, however, waive these considerations, and adopt for purposes of comparison, not the prime cost, but the value placed on the leaf in the factories. This was (on 1st January, 1912) 5·51*d.* per lb. for all kinds of leaf, indigenous and imported.

App. I; Table 5

[1] *Le Tabac*, September, 1913, quoting *Le Journal Officiel.*

The average cost price of all French-made finished products lying in the wholesale stores on January 1, 1912, was 9·12*d.* per lb., the cost including material and making up. These goods were sold to retailers at an average price of 4*s.* 5½*d.* per lb. The average cost price of imported manufactures (mostly Havana cigars and fancy tobaccos) was 14*s.* 5*d.*, and the average selling price to retailers was 33*s.* 7*d.* per lb., leaving a profit on the imported goods (cigars, cigarettes and cut tobacco) of slightly more than 19*s.* per lb.

App. I; Table 9

11. EXPORT TRADE

App. I; Tables 8, 12

The *Régie* endeavours to carry on an export business with the co-operation of specially appointed agents, but the trade makes little headway. In 1912 it amounted (excluding Algeria, Corsica, and ship sales) to 763,000 lb. or only 0·79 per cent of the total sales. The export of cigars was 22,200 lb. and of cigarettes, 339,000 lb., including ship sales in each case. The reason for the almost negligible export trade from France is difficult to explain, unless it be either that the goods are not sufficiently advertised, or that the *Régie* seeks too much profit (stated to be 40 to 50 per cent), or that the quality does not find favour abroad. Prices for export naturally rule much lower than prices in France as is illustrated by some comparisons tabulated in the Appendix.

App. V; 17, p. 352

12. RESULTS OF TOBACCO-GROWING

App. I; Tables 18–20

The annual results of tobacco-growing fluctuate so considerably that it is unsafe to base any examination of the industry upon the yield of any given harvest. The 1911 crop (providing the home-grown leaf in 1912) was, for instance, below normal

in quantity; but the average quality, judging by the price paid, was better than in any preceding year. The 1906 harvest also produced a small crop. But reviewing the industry over a series of ten years it is apparent there has been a steady decline in tobacco-growing in France, although within the same period the number of Departments within which cultivation is authorized has increased from 25 to 28. This is shown by the decreasing number of planters engaged in the business, the smaller acreage devoted to cultivation, and the ever-declining ratio of French leaf to total leaf bought by the Administration. The table in the Appendix which illustrates these changes shows also how the quality of the crop has varied from year to year. The influence of this variation upon the quality of the products supplied to the consumers is an important matter which will be discussed in the next chapter.

13. EMPLOYMENT AND WAGES

App. I; Tables, 14, 15 App. V; 4, p. 58

The total number of tobacco workers employed in the factories in 1912 was 17,968, of which 15,624 were women and 2,344 were men, women predominating in the ratio of 666 to 100. Foremen, forewomen, &c., numbered 901, and the managing staffs 171. The factories thus gave employment to a total personnel of 19,040. The factory hours were 9 per day, and 54 per week.

App. I; 1, p. xvi

Wages of the factory workers are based mostly on piece-work. They are stated by the Administration to have worked out at 3*s.* 6½*d.* per day for women labourers and 5*s.* 5¾*d.* per day for men labourers, which is equivalent to an average wage of 22*s.* 2*d.* per week for each worker. This however probably includes the value of the State grants-in-aid of wages (pensions, sick funds,

etc.), since the average cash-paid weekly wage, free of subventions, works out from the accounts of expenditure at only 17*s.* 3*d.* for men and women workers combined.

The payments to foremen, forewomen, &c., and to the managing staffs are high in proportion to the wages of ordinary workers, but that does not mean the former are excessive. The salaries of directors and engineers (from £200 to £480 per annum) cannot be said to be too generous considering their responsibilities and the duties they have to perform.

14. RETAILERS AND THEIR PROFITS

App. I; Table 17

The duties and obligations of the retailers and the manner in which they obtain the concession to sell tobacco have already been described. It was shown that the profit from retail commissions included a monopoly value, the business profit properly speaking being only what remained after the concessionaire of the shop received his royalty. The concessionaire may, it is true, conduct the shop himself, but in most cases the concessionaire and the tobacconist are separate persons, and it is left to the latter to provide the capital and maintain the clientele. The whole amount of retail commissions paid in 1912 to the 47,500 shops was £1,829,300, equivalent to £38 10*s.* per shop. It averaged 8·70 per cent of the prices paid by retailers and 8·00 per cent of selling prices. As the royalty to the concessionaire is often as much as 50 per cent of the income from the shop, the profit left to the tobacconist proper is a small reward for his enterprise. It is the cause of much agitation and complaint, and is one of the many subjects to be discussed in connection with the relations between the *Régie* and those whom it employs and serves.

Chap. V; § 6

CHAPTER V

The State Tobacco Monopoly in France: The *Régie* and its Public

1. State Industry and the Consumer

While the official reports of State industries such as the Tobacco Monopolies under consideration convey more or less complete statistical information concerning quantities produced and sold, prices, revenues and expenses, etc., one has to look as a rule to outside sources for authority on matters in which the citizen is interested, not as a partner in the State dividends, but as a consumer of the articles the State supplies. The Tobacco Monopoly has two functions to perform—to tax tobacco and to provide tobacco. Having, then, ascertained all we can about the way in which the Monopoly carries out its functions as an engine of taxation, we ought also to know how it succeeds in the equally important rôle of manufacturer and purveyor of goods for sale.

2. Composition of French Goods

Retailers and consumers unite in bearing witness to the faults of the Monopoly and the unsatisfactory nature of its products. Before quoting their evidence, we may consider a matter of policy which was clearly stated in the report of the 1875 Parliamentary Commission, and which largely dominates the situation as far as the quality of the goods is concerned. The report admits the justice of the numerous complaints

App. V; 4, pp. 82–4

against the cigars, cigarettes, and cut tobacco supplied at that time; and although these are matters of past history, the explanation of the defects then discovered applies equally to modern conditions, and is a remarkable recognition of what must be the guiding principles of manufacture in a profit-making industry conducted by the State. The passage reads as follows :—

The various products manufactured in the French factories are composed of home-grown tobacco mixed according to settled proportions with certain kinds of imported tobaccos. A shortage may occur in the French crops, and also in foreign crops, or they may provide only inferior leaves. The result is that the quality of the products is also inferior. There is no remedy for this; the consumers think they are being exploited by the State, while the truth is they are the victims of atmospheric circumstances. The danger is as great with foreign as with home-grown leaf, because in the foreign markets the *Régie* negotiates with merchants free to bargain as they think proper, and does not enjoy the rights with which it is invested in its relations with French planters, who have no other purchaser than the *Régie*, and are paid prices the latter fixes in advance.

In the years of bad harvests, the markets often cause such tobaccos as Kentucky, Maryland, and Hungarian, which take a predominating place in the manufacture, to vary from the normal to twice the normal price. Despite these variations the ordinary trader would procure his requirements at any cost, would never change the composition of his products, and would supply the cigars or the tobacco to which consumers were accustomed, but at a price more or less above the normal; or, if forced by competition, he would put up with sacrifices in order to maintain the quality of his goods and not alienate his clientele by increasing his prices.

The *Régie* is debarred from taking either of these courses. Whatever may be the value of raw materials, the *Régie* is obliged, unless the law were to be specially altered, to sell always at the same prices, and cannot allow any diminution in the profits to the Treasury. That is to say, the Budget of receipts makes no difference between good and bad crops. That is a distinction which a private manufacturer has the right and the duty to make; but a State, which cannot vary its expenses from one year to another, dare not permit it.

It is therefore clear that in such circumstances the *Régie* has only one recourse; to decrease, in proportion to increase in price,

the proportion of dearer tobaccos employed, and to replace them by cheaper and approximately equivalent sorts—or at least by growths which will not alter the quality of the products too much.

These changes in composition, unless made with the greatest precaution and under the most favourable circumstances, cannot but cause a depreciation in quality and the consequent discontent of consumers. We give it as our opinion that these are the causes to which must be attributed most of the complaints being made by consumers against the 'ordinary' smoking tobacco. It has been necessary this year to substitute for certain dearer American tobaccos other coarser sorts, and this substitution has resulted in an immediate decrease of combustibility, while at the same time the flavour has deteriorated. When such circumstances arise, the Administration does not always, perhaps, have a happy hand in selecting the tobaccos it substitutes for those in default, and it would often be to its interest not to be guided altogether by considerations of economy.

The question of composition is in our opinion of capital importance. No amount of care or application in the process of manufacture can give value to the finished products, cigars, snuff, &c., if the raw material is faulty. It is accordingly desirable that the Administration should take steps to secure as much of its stock as possible in advance.

The subject of purchases is dealt with in another report, and means are proposed for putting the Administration in a position to profit by all occasions, just as a manufacturer in command of capital would do, without in any way interfering with guarantees against the waste of State funds. It is in this direction it would be proper to act if we are to remove the complaints made, not without reason, against the smoking-tobacco and the cigars.

From the point of view of uniformity in composition, the employment of home-grown tobaccos is very useful, and the Administration is to be commended for showing a tendency to employ them more and more. But the advantages of developing tobacco-growing in France should not be exaggerated. Far more than is the case with foreign tobacco, our home growths are not safe from bad harvests, and bad harvests have a specially awkward influence owing to the fact that the State is the sole buyer. It compels the *Régie* to reject and therefore to destroy, without compensating the planters, all that it does not purchase. But it is obvious that the *Régie* is also morally bound not to destroy except what it would be absolutely impossible to utilize. If the harvest is bad, it generally happens that the inferior classes of leaves make up practically the whole crop, and the *Régie* finds itself forced to employ, in place of the first quality, the

second and third, and the unmerchantable[1] (*les non marchands*) in place of the latter. If the use of foreign tobacco was abolished, the flavour of the products would unquestionably be more insipid, and we should be no better safeguarded against the effects of bad harvests.

The Commissioners take refuge in what they call 'atmospheric circumstances'. They claim the State is driven to the practice of substitution and is compelled, in order to yield a stipulated annual income, to take steps such as no private undertaking would contemplate. The remedy advocated seems to us impracticable, and even if it were practicable and effective, there is no indication in the statistics of purchases during the past forty years that it has been attempted on any elaborate scale. Supplies of foreign leaf since 1875 have certainly varied within fairly wide limits from year to year, but larger purchases have only been made when there was a corresponding shortage in French crops. During the whole period there was no year when the *total* purchases exceeded the normal sufficiently to provide for more than a small percentage of the requirements of the following year, while compared with conditions existing previous to 1875, the fluctuations were even less extreme. But whether the remedy was tried or not, there has been apparently no cessation in the complaints against the *Régie* products as is proved by the most recent expressions of public opinion.

App. V; 1 *passim*

3. INFERIOR CONDITION OF TOBACCO PRODUCTS

The *Matin* reported (see *Le Tabac*, January, 1913), that at Macon, Louhans, and neighbourhood, the tobacco offered for sale and produced at the

[1] For an explanation of the leaves called 'non marchands', see Appendix II.

Riom factory was worthless. Consumers were obliged to get their supplies from the Lyon factory. Representations had been made repeatedly to the Minister of Finance to remedy this state of affairs, but without avail. Ultimately the retailers of the district sent a petition to the Minister calling attention to the following facts :—

The 500 gramme packets of smoking tobacco often weigh less than 500 grammes ;

The ' Ninas ' (a brand of cigarettes without paper), are too tough, and customers complain they cannot smoke them ;

The cigars sold at 10 centimes are not good. Customers complain bitterly about them ;

Smoking tobacco is not of the same quality as heretofore. Customers raise constant complaints, and many of them are now getting their supplies from Lyon.

The *Atlas*, of April, 1914, contained an article on State Monopolies, written in condemnation of a proposal to nationalize the production and sale of alcohol, and declares with reference to the Tobacco Monopoly :—

The smoker is obliged to accept, with his eyes shut and his purse open, everything it pleases the State to sell him. If the quality is always the same, that is to say inferior, prices are always on the increase.

Numerous references were made in the French press during June, 1914, to the reported measures being adopted at the d'Issy-les-Moulineaux Factory to prevent sabotage in the products manufactured there. A rigid system of control was to be initiated whereby any article could be traced to the workpeople responsible for its production. The press took advantage of this report to recall some of the current complaints against the *Régie* goods.

The *Excelsior*, of June 3, 1914, said :—

Smokers who have complained of finding in their packets of superior cut tobacco or of ' Caporal Ordinary ' a sock, a glove, a

nail, a mouse or other foreign but unsmokable ingredient, and those who complain of getting empty cigarette boxes or boxes not containing the quantity stated on the outside, may now be reassured. We are informed that at d'Issy-les-Moulineaux, where already some means of control of doubtful efficacy have been tried, an infallible but secret procedure has been adopted which will make it possible easily to trace defective products.

The *Petite République*, of June 14, 1914, said :—

It appears that the *Régie*, which has so often incurred our censure, has decided to supply in future nothing but irreproachable products. There was a report recently, according to which the lover of the nicotine plant will no longer find in his packets of tobacco the thousand and one surprises which 'dame *Régie*' has prepared for us up to the present, to wit, pieces of wood, nails, and other unexpected things not for smoking.

4. THE CONSULTATIVE COMMISSION

A 'Consultative Commission' composed of representatives of factory staffs, the Indirect Taxes Administration, factory workers, and retailers was established in 1911. It meets every three months to consider ways and means of developing the revenues of the Monopoly by the better presentation of the products offered for sale. App. V; 23 *passim*

At the session on February 21, 1913, the retailers called attention to defects in some brands of plug and twist tobacco made at the Morlaix factory. Boxes of cigarettes supposed to contain 200 were repeatedly found with shortages. Cigars in packets of ten, made at Nantes, were damaged at the ends. The five hectogramme packets of tobacco made at Nice were under weight. Cigars in boxes were damaged by the nails of the lids passing through them.

The prolonged and animated proceedings at the meeting of the Commission in Paris on

September 2, 1913, were reported in many of the Parisian daily papers. The retailers demanded :—

That the packets of Tobacco ' Ordinary ' of 40 grammes should be increased in weight by half a gramme in order in future to remove any doubt about the weight. It often happens that these packets weigh 38 grammes, and sometimes only 37 ;

That the tobacco supplied should be neither too dry nor too moist ;

That to prevent damage, fragile goods consisting of cigars or cigarettes in cartons or packets should be transported separately and not bundled together in the same sacks ;

That the inspectors of the factories take steps immediately to see that cigarettes and packets of tobacco do not contain wood or other materials having no relation to tobacco ;

That packets of Maryland cigarettes made at le Mans, called ' houppe ' (with tuft ends) from which the tobacco falls out at each end, be suppressed and replaced by cigarettes of the same quality but with cut ends.

The Administration could not be prevailed on to grant the first-named demand, the reply being that it would have involved an annual loss of 330,000 lb. of tobacco. Efforts would, however, be made to weigh the tobacco more accurately.

The *Petite République* of September 3, 1913, referring to this meeting of the Commission, said :—

The tobacco retailers have for the past two years been permitted once a quarter to state their views to the *Régie* concerning the manner in which that remarkable trader attends to its affairs and treats its customers. Without doubt the complaints have been particularly numerous on this occasion.

The *Radical* of September 3, 1913, said, in reference to other complaints about difficulties in procuring the goods desired by the public :—

Are we to believe that at last . . . the State is about to modernize its methods, and like a sensible manufacturer pay heed to the tastes and desires of its customers ? For the first time apparently the representatives of the Administration have deigned to formulate a reply to the complaints put before them. We can only hope this is a sign of a new outlook in the State factories. Nothing more could be said than has been said about the conservatism

that characterizes the *Régie* methods. It is time some intelligent and enterprising direction were given to the State factories which have contributed so much to disparage the business abilities of the Industrial State.

At the meeting of the Consultative Commission on December 5, 1913, the retailers complained that :—

The 40 gramme packets of tobacco were under weight, and the wrappers were badly gummed ;

'Ninas' cigarettes made at Chateauroux were too compact ;

Plug, roll and twist made at Marseille and at Morlaix were too dry ;

Maryland cigarettes made at le Mans were tough and unsmokable ;

'The alloy composing the gold tip on the "Cigarettes Favoritas" becomes tarnished and sticks to the lips.' The Administration undertook to make the tips of genuine gilding in future.

The complaints made at the meeting of the Commission on June 10, 1914, were :—

There were persistent defects in the gumming of the wrappers belonging to the packets of 40 grammes and of 5 hectolitres. Packets are taken out of the sacks completely destroyed ;

The Paris-Sud store had received a large consignment of 5 hectolitre packets of 'Tobacco Ordinary.' These packets were very badly made and badly gummed, and the cutting of the tobacco was too coarse ;

Shortages of from 5 to 6 grammes had been found in packets of tobacco mark N. This could not be due to drying, as the tobacco was quite fresh ;

Manilla cigars were supplied to the trade in musty condition.

5. MISMANAGEMENT AT THE WHOLESALE STORES

Much trouble has arisen between the retailers and the storekeepers owing to the alleged indifference and officiousness of the latter. The retailers' Associations seldom hold a meeting without discussing the difficulties they have to contend with in getting supplies for their trade. At the last annual congress of the Federation of Retailers' Associations App. V ; 20

held in Paris on March 10 and 11, 1914, resolutions were passed demanding certain reforms at the warehouses as follows :—

That the Administration take such steps as it considers effective so that the stores may be supplied by neighbouring factories, and in sufficient quantity, with products made there instead of having to order from factories at a distance, and so delay deliveries considerably ;

That instructions be given to the departmental managements to allow storekeepers all possible latitude with their orders, so that they may always be in a position to supply retailers according to their requirements, especially in the towns where higher-quality French and foreign goods are sold during certain months of the year ;

That measures be taken at the factories to turn out the products demanded by the consumers.

In the discussion on these resolutions, M. Lafont (Bordeaux) said :—

Our stores do not supply what we order. They assert the reason is that the factories will not execute the orders they transmit. The excuse is not a good one. At the Bordeaux factory, for example, the stocks of ' Cigarettes Grenades ' are so large that premises have had to be rented to warehouse them. Yet we are not able to get enough to satisfy the demands of our customers.

M. Rux (Nice) in a written report, stated :—

We have felt that the question of supplies, essential from the point of view of the distribution of the Monopoly's products, is far from giving satisfaction to the retailers.

M. Jardinet (Poitiers) declared that cigarettes in flat packets having been put in circulation they pleased the taste of consumers, and now that they were in request they were no longer to be had. Other speakers said that at Nancy and Lyon the stores were under-staffed. At Lyon sales had increased in five years by two million francs. They were now twelve millions, but there had never been more than three employés engaged. At Lille retailers were subjected to systematic

exploitation. They were meddled with in every way. Retailers outside the Association were always served first. They themselves were refused higher-grade tobaccos and were abused and threatened by the warehouse-keeper.

M. Malardé, leader of the Tobacco Workers' Trade Union, said that the question of the wholesale stores was a complex one. Retailers complained they could not easily obtain the goods indispensable to their trade. The whole difficulty was due to the fact that it had been impossible to establish an understanding between the Administration of Indirect Taxes and the Administration of the Factories. The storekeepers enjoyed and abused a privileged position. . . . Under the present system the profits of the Monopoly were absorbed by the Treasury instead of being used to improve production and develop the undertaking. Although the *Régie* provided millions for the State, it could not get the few thousand francs necessary to buy machines for making flat cartons and packets.

M. Paret (St. Étienne) at the same meeting complained that his warehouse had supplied musty Manilla cigars, and had refused to take them back. M. Revollon (Lyon) stated that his warehouse had agreed to take back some canteen tobacco delivered in rotted condition, and the explanation was given that this tobacco had come from dungeons at the frontier where it had been lying ready for the use of mobilized troops.

The *Réveille du Nord* of April 10, 1914, contained a two-column article under the title 'The Tobacco Conflict' in which the troubles of the retailers belonging to the association at Lille were fully reported and the situation was described as intolerable.

That the complaints about the stores are appreciated at headquarters is shown in the circular addressed by the Director-General of Indirect Taxes to the directors in Paris and the provinces, which stated (according to the *Avenir de l'Orne*), June 4, 1914, that :—

> The Director-General calls attention to the fact that the management of the stores requires constant care, both in regard to the variety of stocks and the good condition of the products. Storekeepers must see to it that they provide not only for normal demands, but also for such demands as may arise from exceptional circumstances, so as to influence an increase in consumption. They must never be found without stocks. They must manage their stores themselves, and must establish relations with retailers by enquiring about their needs. District directors are requested to submit an annual report every December on the management of each store in their district, in which they are to state their opinion of the way in which each person in charge has carried out his duties.

6. OTHER GRIEVANCES OF RETAILERS

The grievances of the retailers in regard to treatment by the stores and other matters are numerous, but their chief ground for complaint is their unsatisfactory relation with the concessionaires of the shops. They claim the royalties are too high and that the tenure of their shops may cease at any moment, causing a sacrifice of their capital and good-will. The organs of their Associations, *Le Débitant de Tabac* (Paris) and *La Civette* (Marseille), repeatedly give voice to these sentiments. With the demand for decreased royalties is associated a demand for an increase in the retail discounts, and it is supported by the contention that the steady increase in rents and in the cost of living makes business less and less remunerative. At the annual dinner of the Seine Association on March

App. V. 23; No. 221

12, 1913, the President, M. Caurat, put the case as follows : —

> We are fortunate in having much hard work—to work in fact for sixteen hours a day without any weekly rest—but like every worker we have the legitimate desire to be paid in proportion to our work. You, Sir [addressing M. Bourély, Under-Secretary of State] have yourself admitted that the commission on the sale of tobacco is too small, and you regretted that financial exigencies did not permit an increase in the commission. Unfortunately the times are not such as to enable a Minister to increase it, and we do not demand it at least for the present, but we will demand with insistence an equitable reduction of the royalties imposed on us. As a fact, in Paris, in the Seine, and in most towns of importance, in spite of high rents and the heavy cost of living, the retailers pay a royalty of 45 to 55 per cent of their gross profits from the sale of tobacco.

M. Lenoir, Member of the Chamber of Deputies and Hon. President of the retailers' federation, went over the same ground and added they called to mind some of their colleagues, who had entered the trade with hard-won savings and money borrowed from friends, and when their business began to make headway could only meet the unreasonable claims of a new concessionaire by closing their shop or parting with their establishment dirt-cheap. Retailers must be assured of to-morrow, not only for themselves, but also for their children and dependents. Those of them who had no subsidiary trade were almost unable to make ends meet. It was time the position of the retailers was reviewed by assuring them of fixity of tenure and allowing them the possibility of meeting their engagements.

The demands made in these speeches were embodied in resolutions passed at the annual congress of the National Federation in Paris on March 11 to 13, 1913. They were expressed at all the meetings of local associations during the

years 1913-14 and were repeated with emphasis at the annual Federation meeting in Paris on March 10 and 11, 1914.

7. THE STATE AS EMPLOYER

App. V; 12

The tobacco workers have long been demanding, among other improvements in their condition, what is called in France the 'English week'—a Saturday half-holiday. The reform has been approved by the Chamber of Deputies, but was held up in the Senate by the Budget Commission, who refused to grant the necessary supplies. The refusal caused a general strike to be called, but it was abandoned after the Prime Minister, M. Viviani, intervened and exhorted the workers to respect discipline. The President of the Council promised the workers that the Government would maintain its favourable attitude to the proposal and find means to give effect to it before the end of the 1914 session. The Saturday half-holiday has since been introduced.

Low wages are also a grievance. The *Petit Parisien*, of June 25, 1914, reports that at a meeting of workers' delegates, the committee were instructed to demand an advance of 15 per cent on present wages and to take all possible steps to secure satisfaction on this point.

The *préposés* (foremen, forewomen, &c.) of the factories and warehouses at their annual congress in Paris on June 8, 1914, made demands for increased wages, revision of residence allowances, Saturday half-holiday, and other reforms.

App. V; 23, No. 243

In a debate in Parliament on the vote for the salaries of the 'commissioned' staff in the factories, which took place on February 9, 1914, M. Lenoir pointed out that the managing staff

(the *ingénieurs*) were underpaid. The best of them left the State service because their salaries were too low, and found more remunerative employment in private industries. The Minister of Finance, in replying, stated that M. Lenoir was perfectly correct, and he hoped to make provision for an increase in the next Budget in order to retain the services of such employés. It was too often the case in other public departments also that the State lost employés to private industry.

8. AN OFFICIAL REPORT ADVOCATING REFORMS

Le Tabac of August, 1912, reprinted from the *Journal Officiel* (Paris) the preface to the report on the Budget Bill, setting forth the revenue and expenditure for the year 1913, and submitted by M. Paul Bourély, Under-Secretary of State for Finance. M. Bourély refers to the Tobacco Monopoly in his preface, and says :—

We cannot disguise the fact that the conduct of the Tobacco Monopoly gives rise to frequent criticism. Complaints are made as to the quality of the products and the diffidence of the *Régie* in replying to grievances or in satisfying the desires and tastes of consumers. Its manufacturing processes and stereotyped methods are found fault with. They are ascribed to the fact that there is a monopoly and to the absence of the stimulus of competition. Regrets are expressed that the Tobacco Monopoly is not carried on in a commercial spirit, and people demand the adaptation to this State industrial undertaking of the methods to which private industry owes its superiority. These criticisms, more or less well founded, are not, however, applicable specially to the Tobacco Monopoly, but may be directed in a general way to most State undertakings. . . .

To increase the amount of sales, the first condition is to advertise the products to the consumers to whom they are offered. The great development that has taken place in our day in publicity shows clearly that the prosperity of most concerns depends on the manner in which the attention of the public is attracted. No doubt publicity is especially necessary where there is competition, and it is thought that a monopoly, having no occasion to fight competition, can save the expense of advertising. This point of view does not

seem to us to be altogether correct. Advertising is capable of increasing the profits to be derived from the Tobacco Monopoly. As a fact, it will be admitted that the large majority of consumers are unacquainted with the numerous products made by the *Régie*, and of which retailers carry a very small stock compared with the goods in current demand. The Administration makes no efforts to give information to smokers. It has no catalogue. When a new brand is put on the market, it is accustomed to notify the fact by a few lines in the papers. The retailers are as a rule no better instructed, and are frequently unable to answer the questions put by their customers. One only buys a new cigar or a new variety of cigarettes after some friend has by chance shown or recommended him such goods. . . .

Coming to other considerations, it is necessary to stimulate the interest of the agents entrusted with the sale of tobacco. The 'receivers of taxes in office' (*receveurs buralistes*, the beneficiaries of certain shops) and managers of shops, who are remunerated by discounts, are interested in selling the highest priced goods and the greatest quantity possible. But this is not the case with the storekeepers who, in receiving a fixed salary, have no pecuniary inducement to push sales. One might even say that these officials have an interest in decreasing the number and quantity of products passing through their stores, in order to simplify their accounts and their work. . . . Whatever may be the ideas of duty held by the storekeepers, it happens that they show a tendency to refuse the retailers new products and brands little in demand. Thus they hinder sales when they ought to be urging the retailers to develop them more and more, especially by calling attention to new varieties and to the articles which return a large profit to the Treasury. . . . It is necessary to interest these agents in the sale by giving them a commission or a bonus proportionate to their sales, which would form part of their present salaries . . .

Other improvements are also desired, for example, a better tenure of the shops. But this is a complex question. The special conditions under which the shops and revenue-collecting offices (*recettes buralistes*) are conferred in France, and the moderate commissions allowed on sales (8 to 10 per cent) prevents the Administration from being too exacting towards the retailers. Under the present organization we cannot always hope to have the retail shops properly, even luxuriously, equipped after the fashion obtaining in certain foreign countries. To that end it would be necessary to grant an increase in the commissions, that is to say, sacrifice a part of the receipts, relying on an increase in sales to make good, but we are not able to give any advice in this direction.

9. SUMMARY

Assembling briefly the chief facts ascertained in regard to the government control of the tobacco trade in France, we can say that:—

1. The business accounts fail to return a true record of commercial profits; expenses are debited against the Administration which are at least 18 per cent short of what they ought to be were all capital charges, departmental expenditures, costs of collection, relief from central and local taxation, etc., taken into consideration;

2. The State does not function well as a purveyor of goods; many complaints are made of the quality of tobacco and the contents of packages; production is stereotyped and restricted to a few staple brands; there is both public testimony to and official admissions of mismanagement and friction in distribution; in foreign markets, where products must be offered on the basis of competitive prices, the State finds few customers, the volume of the export trade being quite negligible;

3. The taxation imposed by the exaction of State-monopoly profits is subject only to partial control in Parliament; it has an arbitrary incidence on each separate article which means that the taxpayer can never tell how much he is contributing through monopoly profits to the Treasury; the results of attempts to procure increased revenues from increased selling prices indicate that consumption has reached the limit of the taxation the Monopoly can make it bear;

4. The discounts allowed to the retail trade are small; tobacconists running the business in

behalf of State nominees to the shops receive only a share of the trading profits; and they give expression to grievances in respect of many other handicaps;

5. Tobacco-growing, despite departmental efforts to encourage it in the areas where cultivation is permitted, makes little progress; it entails heavy costs on the State, and the leaf produced is of inferior description;

6. Manufacture and sale are conducted under a most rigid system of bureaucratic control; there is restriction of freedom in every direction; and opportunity for personal interest and personal initiative is stifled with results that point to no compensating social or economic advantage.

CHAPTER VI

The State Tobacco Monopoly in Italy

1. HISTORICAL SKETCH

App. VI ; 117; 94; 97; 98

The Government of the new Kingdom of Italy, proclaimed in 1861, took over in 1862 the various State Tobacco Monopolies that had already formed the established system of tobacco taxation in most of the constituent provinces. They had been organized and managed on different lines, and centralized control with uniformity in administration was effected by the Act of June 15, 1865. The Italian Government conducted the Monopoly as a State department until 1868; but it was badly managed, and as there was urgent need at that time for increased revenues to meet the large deficit in the national revenues, the Monopoly was leased for a term of fifteen years to a private company, against a loan of £7,200,000. It was taken over by a syndicate consisting of Italian credit societies, and financial houses in Paris, London, and Frankfurt, and the lease was divided into four periods: 1869-70, 1871-4, 1875-8, and 1879-83, for determining the payment to be made by the Company to the State. For the first period the payment was the revenue derived by the State in 1868, plus 40 per cent of the profit remaining; for the second period, the total average profit in 1869-70, plus 40 per cent of the remainder for each year; for the third and fourth periods, the total average profit in the preceding periods plus 50 per cent of the remainder for each year.

The accumulated profit made by the Company itself during the fifteen years was £2,980,000 after paying all expenses and writing off 6 per cent interest per annum on £2,000,000, which represented the value of stocks taken over in 1868 and paid for. The growth in the national revenue during the same time is illustrated as follows :—

1868	State control	£2,676,000
1869	Lease	£2,740,000
1871	Lease	£2,932,000
1874	Lease	£3,052,000
1883	Lease	£4,340,000

The increase in the annual revenue from tobacco from £2,676,000 in 1868 to £4,340,000 in 1883, was due to a great extent to circumstances beyond the control of the Company. In 1877 Sicily had been included in the Monopoly, and in 1883 had provided £260,000 out of the £4,340,000 national revenue. But a more important factor had influenced the revenues in the considerable increase of prices (by instructions from the Treasury) which took place in 1875 and in 1878, besides which there was a steady though small increase in average selling prices within the periods 1869-1874, 1875-7, and 1878-1883, due either to sundry smaller changes in the selling schedules or possibly to a relatively greater demand for better classes of tobacco. The average price rose in fact from 2*s.* 5·4*d.* per lb. in 1868 to 3*s.* 5·5*d.* per lb. in 1883.

It should however stand to the credit of the Company's administration that during the period 1869-74, in which the average selling price increased by only a halfpenny per lb., consumption rose from 32,925,000 lb. to 38,848,000 lb., and the national revenues from £2,740,000 to £3,052,000. The average quantity sold in the two years 1873 and 1874,

38,608,000 lb., exceeded the average for any other two succeeding years until as late as the years 1907 to 1909, despite continuous growth in population and the inclusion of Sicily within the Monopoly territory in 1877. The subsequent falling off in consumption is to be attributed to the increased taxation already noted, which has been repeatedly added to since 1883.

2. THE PRESENT ORGANIZATION

The direct control of the Monopoly was resumed by the State on January 1, 1884. The factories reverted under the original agreement to the Government, which undertook within two years to pay £2,500,000 to the Company, made up of £2,372,000 for the raw material and manufactured produce in the hands of the Company, and the balance for improvements in buildings and plant made with the consent of the Government. The statistics of the Monopoly have since been figured, not on the calendar year, but on the Italian financial year July 1, to June 30.

From 1884 till 1893 the Tobacco Monopoly was administered by the *Direzione generale delle gabelle*. Since 1893 it has been administered by the department of the Finance Ministry known as the *Direzione generale delle privative*, which also manages the Salt and the Lottery Monopolies.

3. CULTIVATION AND PURCHASE

The raw material used in manufacture is partly of home and partly, but more largely, of foreign produce. App. V; 25; 26

The cultivation of indigenous tobacco is in private hands, guided and controlled by the State. For its encouragement an experimental institute

has been established at Scafati, near Pompeii, which supplies to the growers the seeds proved to be suitable for culture in Italy. The bulk of the indigenous leaf is supplied by small growers, who plant under what is called ' manifesto ' concessions. A Ministerial decree is issued once a year, determining how much and what kind of tobacco shall be grown in the following year, and stipulating the prices that will be paid by the State. Permission is then given to the individual cultivators to plant a given area with a given number of tobacco plants, and in order that all the regulations may be observed, the planters are under the surveillance of specially appointed officials belonging to the nineteen ' cultivation agencies ', towards whose expenses they pay a surveillance tax amounting on the average to about $1\frac{1}{4}$ per cent of the purchase price. Provision is made for arbiters to adjust the price in case of dispute. The leaf is usually delivered in a loose state and after curing and suitable treatment is passed on to the factories.

Tobacco-growing concessions are also granted under special arrangements to larger concerns and estates. In addition, the Monopoly handles the results of experimental cultivation conducted in co-operation with the State, and may purchase the tobacco which is grown (under special licence) for exportation.

App. I; Table 39

The Appendix contains a review of tobacco-growing in Italy during the years from 1903 to 1913; this shows a continuous progress, which is specially marked in the yield of leaf grown under the ' special concessions '. But taken at its ratio of total leaf employed by the Monopoly, the home-grown article has not displaced the imported leaf, since that has also been bought in increasing quantity,

and has year by year made up 70 to 77 per cent of the raw material.

4. FOREIGN TOBACCO

The raw material from abroad is bought in the open market. In America the Monopoly has its own purchasing agency with headquarters in Clarksville (Kentucky) and branches in New York and Richmond (Virginia). The leaf is delivered to the warehouses at Leghorn and San Pier d'Arena, constructed for that purpose, as well as to four others attached to the factories at Naples, Palermo, Rome, and Venice. App. V; 25; 94

Foreign manufactured products are stored at the Rome factory and stocks are maintained by the foreign suppliers at their own risk, the Monopoly accounting to the suppliers as sales are made.

Tobacco may be imported on private account on payment of a licence of 2 lire (1*s.* 7*d.*) for permission, and subject to a customs duty (according to the tariff obtaining in 1912-13) of 12*s.* 8*d.* per lb. on Manilla and Havana cigars and on cigarettes, and 7*s.* 3*d.* per lb. on other tobacco products. App. I; Table 30

5. PRODUCTION AND SALE

The products of the Italian State Monopoly consist of cigars, cigarettes, cut tobacco, and snuff, and are manufactured in nineteen factories distributed over the country. Finished goods are consigned to and stocked in the tobacco warehouses (*maggazzini di vendita*) of which there are 118, and from which the wholesale depots (*spacci allo ingrosso*) order their requirements, delivering the goods in turn to the retail shops. App. V; 25; 26; 97

The tobacco warehouses, like the factories and cultivation agencies, are controlled and staffed

by State employés. The wholesale depots, of which there are now 462, are managed by storekeepers paid by discounts on their purchases. The lease of the depot is for nine years, and is put up to a public auction which fixes at the same time the discount the incoming lessee is willing to accept.

App. I; Table 37 App. V; 25; 97

There were in 1912-13, 34,752 retail shops, of which 10,448, with an annual turnover of £24 or less, were possessed as 'free' concessions by retired civil servants or their dependents free of any rebate; 21,452 shops, with an annual turnover up to £80, were held as 'onerous' concessions to civil servants, &c., subject to fixed rebates (*canone*) on the selling commissions; and 2,852 shops with a larger turnover than £80 were occupied by lease-holders under a system of lease-at-auction to the party who can guarantee to pay the highest amount of rebates off the commissions allowed on sales. The 'free' and 'onerous' concessions are made by patronage, similar to the system in vogue in France for all retail depots. The appointment is sometimes for life, sometimes for fifteen and sometimes for nine years. As in France, the retailers of tobacco are subject to a lengthy code of exacting obligations and administrative regulations, which must be observed at the risk of severe penalties for disobedience.

App. V; 26; 27

6. FIXATION OF PRICES

The Report (Part I) of the Swedish Government Taxation Committee (1909-11) states, on pages 166-7:

'Selling prices are fixed by Parliament, which is empowered, according to the Monopoly Law, to vote a maximum tariff for the specific brands of tobacco. This tariff or schedule cannot be exceeded, but it may be lowered by Royal Decree

on the advice of Ministers, the Council of State, and the Technical Council of the Monopoly. The law by which prices are regulated contains no provision giving the taxpayer a guarantee that the burden of the tax shall not be greater than it is reputed to be when the tariff is voted. That is to say it simply fixes the price of each type of product, but does not (save in exceptional cases) determine its weight, dimensions, or quality. Mention is certainly made of the "kilogramme" in relation to prices, but that means 1,000 grammes weight only in respect of cut tobacco and snuff. The standard is conventional for cigars and cigarettes, being equivalent to 200 and 1,000 pieces respectively, without regard to the actual weight; there is nothing to prevent the Administration from taking, for example, two centimetres off the *Regalia* cigars or from using Brazilian instead of Havana wrappers—so long as the shape and name are retained. If cost of production goes up prices are advanced in sympathy, but if there is a subsequent decrease in cost owing to an improvement in market conditions, the State alone gains the advantage. The consumer never gets the benefit. The existing [1910] tariff of prices returns a high percentage of profit on the cheap brands and a low percentage on the dear brands, but the absolute profit in lire and cents on each kilogramme increases with increased price. For instance, the cheapest [Italian] cigars, *Fermentati Terza*, are retailed at 5 cents, the dearest, *Regalia Londres*, at 30 cents. For every 100 lire that the purchaser spends on *Fermentati*, the State gets 62 lire; for every 100 lire of *Regalia* sold, the profit is 38 lire. But *per kilogramme*, the profit on *Fermentati* is only 6 lire, as against 23 lire on *Regalia*'.

7. FINANCIAL RESULTS

App. I; Tables 23, 24

The Monopoly has provided continually increasing revenues. In 1912-13 the net profit was £10,075,400, corresponding to 5*s.* 8·1*d.* per head of population which may be compared with the results of ten years previous, the net profit in 1902-3 having been £6,301,050, corresponding to 3*s.* 7·8*d.* per head. Deducting the yield of the export trade and the secondary products sold in Italy, the net profits in 1912-13 and 1902-3, from consumption in Italy were respectively £9,946,550 and £6,253,900, corresponding to 4*s.* 6·4*d.* and 3*s.* 7·5*d.* per lb. of manufactured tobacco sold. This indicates that the increased revenues are due, in the main, to heavier taxation on tobacco.

App. V; 25

The profit of the Monopoly is arrived at after deducting expenditure from the gross receipts, the expenditure being adjusted by allowing for any change in the value of the assets between the opening and the closing of the financial year. The expenses are incurred by the Ministry of Finance and are charged to the Monopoly in separate accounts kept for the purpose. In addition to actual cash expenditure, the Monopoly is made to bear its quota (£263,000) of the cost of collection and surveillance by the revenue officials (*guardia di finanza*), of establishment expenses on offices and salaries at the Ministry of Finance, of legal expenses, and of government agents abroad. It is also charged with interest, although at the low rate of 3½ per cent, upon the value of capital existing at the beginning of the year, with the rental value of land and buildings belonging to the Crown, and with the stamp duties on the untaxed money orders used when buyers make their remittances.

The methods of accountancy in Italy are thus far an improvement on those obtaining in either France or Austria.

Nevertheless certain items in the expenditure, such as transport, £66,750, and rent of Crown property, £21,800, would bear investigation. It was noticed that in France, the *Régie* enjoyed privileged railway freights; its expenditure on transport was £146,200; and it manufactured 94,527,650 lb. of tobacco. If, then, the cost of transport varies with the quantity of goods produced, the Italian Monopoly seems to enjoy even greater privileges on the Italian State railways, seeing that it spent £66,750 on transport, and manufactured 46,840,300 lb. The ratio in France was £1·54 for transport per 1,000 lb. manufactured; in Italy it was £1·42 per 1,000 lb. App. I; Table 25

The rent of Crown property appears to be a nominal charge. Taking the factories alone, it amounted in 1912-13 to £15,300, representing at 5 per cent, a capital value of £306,000 for nineteen buildings, including land. This is an average of £16,100 for each, whereas the average value of the twenty-one French factory buildings and their sites is £57,250. In other words, the French Monopoly employs £12,710 of fixed capital for every 1,000,000 lb. manufactured; the Italian Monopoly employs only £6,535. If the French valuation is accurate and if the Italian Monopoly is actually charged a full economic rent, the Italian factories must be small indeed compared with those operated by the French Monopoly and very much superior in economy and efficiency.[1] App. I; Table 25 App. V; 1

[1] The value of the real property employed by the Italian Monopoly is not entered in the valuation of its capital—land, buildings, etc., being treated as belonging to the Crown. *Cf.* App. I; Table 26.

App. V; 25, p. 31

The cash outlay (*spese tassative*) by the Treasury on the Monopoly was in 1912-13, £3,099,800, and some part of this sum must be regarded as the equivalent of the floating capital at the disposal of the Monopoly. Whatever it may represent as capital should bear interest on the same footing as the fixed capital. Further, what has been said about the non-insurance of buildings and stocks and the exemption of the French Monopoly's properties from taxation applies equally to Italy; these items, and the others already mentioned, represent charges which ought strictly to be set against the revenue before any 'net profit' is struck in favour of the Monopoly.

8. CONSUMPTION

App. I; Tables 28, 29

The total amount of manufactured tobacco sold by the Monopoly in 1912-13 was 45,938,950 lb. of which 42,930,400 lb. were sold in Italy. The consumption of tobacco, like the consumption of any other commodity, may be influenced by various factors such as prices of sale, quality of the goods, purchasing power of consumers, and popular taste.

App. V; 25, p. 228

For one reason or another the average consumption of tobacco in Italy is comparatively low. Since 1884-5 it has not exceeded 1·27 lb. per head of population. It was as low as 1 lb. per head in 1899-1900, and has since gradually risen to 1·22 lb., the figures for 1912-13 dropping again to 1·08 lb. in the latter half of the fiscal year 1913-14, owing to the increased prices to be referred to presently.

Considering the low level of wages in Italy (as to which the wages paid by the State itself are an index), tobacco, heavily taxed as it is by the Monopoly, must be a comparatively dear luxury to the average man, and this probably helps largely

to account for the small consumption as well as for the kind of products the smokers are content to buy. As much as 95½ per cent of the tobacco bought is restricted to a few staple goods of the cheapest order. In fact it is doubtful whether it is worth while for the Monopoly to seek a revenue by manufacturing the remaining 4½ per cent of better class goods itself, instead of allowing similar products to be imported and taxed in the ordinary way through the Customs houses. App. I; Table 31

9. EXPORT TRADE

The manufactured tobacco sold outside the home market in 1912-13 amounted to 3,008,550 lb. or 6·53 per cent of the total sales by the Monopoly. Of this quantity 1,399,450 lb. were sold to Italian colonies, to territories occupied by Italian troops and to ships in Italian ports. The sales to foreign countries amounted to 1,609,100 lb., and of these the Argentine, where there is a large number of Italian emigrants with an acquired taste for the products of their native country, took 1,208,900 lb. For the rest, excluding the peculiarly favourable Argentine market, the Monopoly sold only 400,200 lb. abroad, or 0·87 per cent of its total sales, which cannot be looked upon as a sign of success in the world's markets. App. I; Table 29

Export trade is conducted under the regulations prescribed by the Ministerial decree of July 8, 1908, and December 23, 1912, with appropriate safeguards to prevent re-sale within Italy. It is left to private parties to find their own customers abroad, and they must make their purchases from the Monopoly at certain specified warehouses (those in Livorno, Sampierdarena, Naples, Venice, and Milan). Any one is free to take part in the export App. V; 29 *passim*

trade, except to certain countries, particularly Argentina, where agencies are subject to exclusive concessions. The Monopoly fixes the export prices and allows a discount varying from one per cent on annual purchases of £2,000 to five per cent on annual purchases exceeding £16,000.

App. V; 25; 29

The Argentine trade, which has grown considerably in recent years, is leased at auction to the person or firm who can guarantee to purchase the greatest quantity of tobacco over a period of years at prices fixed by the Administration for each class of goods, plus the highest increment offered at the auction. The concession was first made in 1897 for five years, and it came to be renewed again at the end of 1914, the period of the concession being fixed at nine years with 1,320,000 lb. as the minimum annual quantity of tobacco to be purchased.

10. INCREASE IN HOME PRICES

It was noticed that in 1883, the year before the State resumed control of the Monopoly, the average wholesale selling price was 3*s.* 5·5*d.* per lb., which was an advance of 1*s.* per lb. on the average prices ruling in 1869. In 1912-13, after repeated increases

App. I; Table 30

in the schedules, the average wholesale price had become 5*s.* 10·9*d.* for Italian products sold within the country, and 5*s.* 11·2*d.* including imported products. More and more taxation has been thrown

App. V; 25; 97

upon consumers of tobacco. The first increase under the new administration took place on December 1, 1885, and schedules were advanced again in 1892 and in 1910. The only reduction was in 1891 when for a time cigarettes were cheapened.

App. I; Table 33

On January 4, 1914, a further increase took place which affected all goods sold, including foreign

products, and the greatest additions were made to the cheapest and most largely consumed tobaccos. The average retail price rose from 6*s.* 5·5*d.* to 7*s.* 6*d.* per lb., or by 16·20 per cent. From such an increase enhanced profits might naturally have been expected, but the immediate result has been disappointing. The recently published report of the Italian *Régie* for the year ending June 30, 1914, shows separately the volume of sales before and after the change in prices on January 4. Calculating with these data, and allowing for the normal expansion of sales as disclosed in 1912-13 in the absence of any change in prices since 1910, we estimate that the higher taxes caused a reduction (for the remainder of the year) of 13·26 per cent in consumption and of 1·15 in the receipts, thus producing less revenue than the Monopoly would have obtained had prices remained unaltered. It may be admitted that this is only a temporary effect and that six months are not sufficient for judging the influence of the change; probably there would be a recovery later on. Nevertheless, the set-back has been so considerable even for the short period, that it indicates the Monopoly has approached, if it has not reached, the limit of its resources as a fiscal medium; the attempt to increase receipts by compelling the smoker to pay more has brought about a correspondingly destructive decrease in consumption. Our calculation shows in this respect a severe reaction, in the reduction of consumption from an annual average of 1·22 lb. to 1·08 lb. per head.

11. EXAMPLES OF COSTS AND PROFITS

App. I; Table 30

Statistics published by the Administration enable a comparison to be made between the cost

of the several classes of goods (including all expenses), and the wholesale selling prices, from which it appears that in 1912-13 cigars costing 1*s.* 10*d.* per lb. were sold at 6*s.* 8·2*d.*; cigarettes costing 1*s.* 7·1*d.* were sold at 10*s.* 6·7*d.*; cut tobacco costing 8·3*d.* was sold at 2*s.* 11·5*d.*; and snuff costing 7·8*d.* was sold at 2*s.* 9·1*d.* For all Italian products the average cost was 1*s.* 4·6*d.* and the average selling price 5*s.* 10·9*d.* Imported products costing 10*s.* 9·3*d.* were sold at 26*s.* 5·3*d.* per lb.

Thus the actual profits were: for cigars, 4*s.* 10*d.*; cigarettes, 8*s.* 11·6*d.*; cut tobacco, 2*s.* 3·2*d.*; snuff, 2*s.* 1·3*d.*; all Italian products, 4*s.* 6·3*d.*; and imported products, 15*s.* 8*d.* per lb. These profits are less than the taxation imposed, since the cost prices include not only industrial expenditure, giving added value to the goods, but also expenditure incurred in collecting the revenue and protecting the Monopoly.

12. EXPORT PRICES

App. I; Table 29

Export prices are much below those fixed for Italian consumption. The average export prices in 1912-13 were for cigars, 2*s.* 6·2*d.*; cigarettes, 2*s.* 5·1*d.*; cut tobacco, 1*s.* 5*d.*; snuff, 2*s.* 1*d.*; and for all goods (net of discounts) 2*s.* 3·4*d.* per lb. They were slightly amended in 1914 after the new Italian schedule was put in force, and if the revised home and export tariffs are placed side by side, it will be seen by how much less tobacco is sold abroad. The differences are greatest in the cheaper goods. 'Toscana' cigars, for instance, selling (retail) in Italy at 9*s.* 8½*d.* per lb. are exported at 2*s.* 8½*d.* 'Macedonian' cigarettes are sold respectively at 14*s.* 6½*d.* and 2*s.* 11*d.* per lb. 'Strong' cut tobacco at 4*s.* 6½*d.* and 1*s.* 1*d.* per lb., and so on. The State

App. I; Table 32

makes a marked discrimination between its home and its foreign customers, which is natural enough in the circumstances, since the Italian price includes a tax on consumption, while the export price must come down to a figure determined by open competition.

The export trade is small not only in respect of quantity sold, but also in respect of the profits derived. The Administration keeps a separate account of the receipts, expenditures, and profits of its 'extra-monopoly' trade, *i.e.*, its foreign trade, and the sale of secondary products in Italy (the latter a very small item). In 1912-13 the 'extra-monopoly' receipts were £373,700. The actual profit, after deducting cost of material and other expenses (£244,850) was £128,850, or only $1\frac{1}{4}$ per cent of the total annual revenues. Of the 'extra-monopoly' receipts, manufactured tobacco exported from Italy accounted for £343,950.

App. I; Tables 24, 29

13. RAW MATERIALS USED

App. I; Tables 27, 35, 36

The average first cost of home-grown leaf purchased for the 1912-13 trade was 3·60*d.* and of imported leaf 7·40*d.* per lb., the average for both classes being 6·36*d.* per lb. The leaf delivered by the Italian growers has to undergo treatment, the expenditure upon which, with costs of storage, transport, &c., raised its cost in 1912-13 to 5·48*d.* in a state ready for manufacturing, while the imported tobacco was valued in the factories at 7·51*d.* per lb. The average for both was 6·93*d.* These prices, either the first cost or the factory value, may be taken as a criterion of the quality of the raw material made up for Italian consumers, although at the same time it must be borne in mind that the prices for the home grown article are fixed

by Ministerial decree and do not necessarily represent the economic value.

The manufacturing waste (*avanzi di lavorazione*) consisting of ribs, tops and other residue, introduced into finished goods in 1912-13, amounted altogether to 9,583,300 lb. valued at 1½*d.* per lb., and constituted 13·94 per cent of the total raw material used. Italian leaf represented 24·16 per cent, foreign leaf 61·76 per cent, and sweepings and abandoned and contraband tobacco 0·14 per cent. Cigars and cigarettes are composed principally of foreign leaf, while cut tobacco and snuff are made up most largely from Italian leaf and manufacturing waste.

App. I; Table 34

14. WAGES, EMPLOYMENT AND FACTORY CONDITIONS

The total number employed during 1912-13 in the nineteen factories and the two separate raw material warehouses were 19,023. Of these, 1,109 were inspectors, &c., in authority over others, 395 were artisans, 1,073 were ordinary men workers, and 16,446 were women workers and girls. Considering ordinary workers alone, women labour predominated over male labour in the ratio of 153 to 10. There were 1,998 girls, and of the adult women operatives 14,354 were piece-workers.

App. V; 25, p. 235

The net wages paid to the 1,109 persons in authority were £71,600, equivalent on the average to 24*s.* 10*d.* per week, while the net wages paid to the remaining 17,914 workers (men and women included) were £497,600, equivalent on the average to only 10*s.* 8*d.* per week. In addition to their net wages the inspectors, &c., received £13,300 in overtime and special services, making their effective wage equivalent to an average weekly sum of 29*s.* 5*d.* The remaining workers received

in addition to their net wages £101,350 in pensions, sick relief and various benefits, making in all £598,950, equivalent to a weekly average of 12*s.* 10*d.* The Administration figures out this total as being equal to an average of 4*s.* 6*d.* per male worker, and 2*s.* 2½*d.* per female worker for each day of eight hours actually worked.

Interesting information is given in the report of the Administration concerning certain factory conditions, such as the prevalence of prophylaxis of which there were 81 cases on 30th June, 1913; the number of child-births among the piece-workers —1,718 during the year, showing that a large proportion of the women are mothers of families; the year's toll of accidents, 408 to men workers, and 1,245 to women; the use made of midwifery establishments and of 'economic kitchens'; and the receipts and expenses of the Mutual Provident Funds (*casse di mutuo soccorso*). But what is, perhaps, of greatest interest is the frank official statement of labour troubles, strikes and lock-outs in the factories, explaining the alleged grievances of the workers in each case, and the reasons for action taken by the Administration—generally the policy of the lock-out. The workers, having presumably no other alternative employment at the same or higher wages, did not stay out long, but returned or were 're-admitted' unconditionally, sometimes after expressing 'repentance'. The 'disciplinary punishments' administered involved dismissal for three men and 196 women, while 1,216 men and 26,010 women were suspended from employment for periods which in all amounted to 38,778 working days.

App. V; 25, pp. 238–61

The catalogue of one year's troubles mentions nineteen strikes or lock-outs in ten factories, and

they were due to all kinds of grievances. In one case the Administration punished with suspension forty-four workers who had joined in a public demonstration against the increase of communal taxes. There were protests against overbearing or unjust treatment by foremen and forewomen, against the refusal of the management to meet a committee representing the workers, against inefficient appliances for ventilating the work-rooms, against the continuance of the eight-hours day, the working day having been seven hours up to 1909-10, &c. *In no fewer than six cases the trouble arose about the leaf supplied as raw material*, a matter necessarily of much concern to piece-workers. At Torino on two occasions it was deficiency in the quantity of leaf. At Florence the leaves were declared to be bad. In Milan the complaint as to inferior quality came on one occasion from the strippers and on another from the makers of cigars. And at Chiarvalle the strippers claimed that 'the working system was not being conducted on duly prescribed lines, and that this mismanagement, added to the bad quality of the leaves, made it impossible to earn a normal wage'.

15. THE GENERAL STRIKE IN 1914

On April 18, 1914, the tobacco workers declared a general strike and caused an almost complete stoppage in the factories for fully eight weeks. Their grievances were based on a petition presented to the Administration in May, 1913, containing some fifty requests for improved conditions. The 'minimum demands' in their strike manifesto included the abolition of the additional eighth hour, thus reducing the working day to seven hours as it used to be; a minimum wage of 2·50 lire

(2*s*.) per day; increase of piece-work rates by 25 per cent; improvements in the scale of pensions and sick funds; abolition of casual labour; a daily hour for meals; and other matters concerning the internal management of the factories. The trouble was serious enough to provoke a two days' debate in Parliament (on May 11 and 12), the Government announcing they were not prepared to make any concessions beyond an overtime wages increase of 25 per cent from the eighth additional hour of work and a grant of six holidays per annum at full rates of pay. With this the workers had to be content; after remaining out for a further month, they returned to the factories on the Government's terms on June 11. A full account of the trouble is given in the then current issues of the journal *L'Unione*, the organ of the Federated Italian State Workers, published fornightly in Rome.

16. THE POSITION OF THE RETAILERS

App. I; Table 37

Retail profit is derived wholly from the discounts or commissions allowed by the Administration at a given rate per cent of the fixed retail prices and subject to the repayment of rebates in certain cases. The rate of discount has been reduced step by step in recent years; it averaged 8·54 per cent in 1893-4, and fell to an average of 8·06 per cent in 1912-13. In January, 1914, it was further reduced to a uniform rate of 7·50 per cent on all goods. More has also been asked from retailers in the way of rebates on their profits, the total amount received by the Monopoly in rebates having been £66,400 in 1893-4 as compared with £180,350 in 1912-13. But as prices have risen in the same period, the net amount of retail commission at the lower rate per cent has been maintained at a fairly

App. V; 25, pp. 211, 228; 28; 30

constant sum on the average. The change in the profits of individual shops under the altered circumstances depends on the nature of the trade done, the proportion in which dearer and cheaper goods are sold, and the effect of increased price on consumption. As a body, however, the retailers have made serious complaints about the cutting of discounts and they contend, rightly enough, that the increased prices they are authorized to charge are no compensation, since they themselves have to pay more for their purchases and must therefore find additional capital to run the business.

The grievances of retailers in respect of reduced discounts are more especially voiced by those who exercise the right of sale under the concessionaire. It frequently happens in Italy, as in France, that the person to whom the State has granted the legal privilege of selling tobacco is not in a position or may not care to go into the trade. With the permission of the Administration he may transfer the right of sale to a shopkeeper proper in return for an annual rent or royalty, and so pocket the monopoly-value of the privilege. The shopkeeper in these circumstances shares the fixed discount with the concessionaire, so that the actual discount in the trade may be considerably less than the 8·06 per cent (or 7·50 per cent since January, 1914) discount already noted. An administrative reduction in discounts is therefore a serious matter to such tobacconists.

But agitation is not confined to the question of discounts; it aims at obtaining some legal status in the eyes of the Monopoly, which recognizes only the concessionaire and regards the tobacconist under him as purely a tenant-at-will. The privilege of sale may be transferred, and when that happens

the new holder of the privilege has no obligations towards the occupying tobacconist; he may evict him, and either exercise the right himself or find some one else to do so. It is under such conditions of insecurity and small profits that tobacco is sold under State auspices in upwards of 28,000 shops in Italy.

17. SUMMARY

A review of the chief features of the economic and industrial results from the State Tobacco Monopoly in Italy shows that :—

1. The conclusions arrived at in connection with the French *Régie* are largely true of the Italian Monopoly, except that in Italy the accounts of expenditure are more complete and the report of profit gained is more trustworthy; the sum representing profit can, however, be accepted only with demur as several of the charges appear to be nominal, and a deduction should be made from net revenue for relief from taxation, non-insurance of buildings, and stock, &c.;

2. Consumption is limited and has been reduced to a low level by repeated increases in taxation, with the accompanying result that in spite of high prices the Treasury receipts are only moderate; the attempt made in 1914 to procure more revenue by raising selling prices brought about, during the succeeding six months, diminished instead of increased receipts;

3. Control over prices and over the profits made by the Monopoly is exercised to a far greater extent by officials than by the tax-payers themselves; although the tax is levied at an increasing

rate according as the price per lb. rises, its incidence on the cheapest goods is considerably heavier than on dearer goods for the same sum of money expended; the Monopoly has in fact established the precise opposite of an *ad valorem* system considered as a means of imposing taxation in proportion to ability to pay;

4. Retail discounts, never high, have been gradually reduced and their curtailment has contributed to the Monopoly's increased receipts; the reduced discounts have given rise to many complaints on the part of retailers whose grievances, as among French tobacconists, extend also to numerous other disabilities prejudicing their chance of making a livelihood from the trade;

5. The ratio of home-grown to total tobacco used in manufacture is small and remains stationery; the leaf is poor in quality; waste and débris are largely employed in making up the finished goods; except in the Argentine, which is a specially favourable market, the products of the Monopoly find little demand abroad;

6. In the factories wages are low, and labour conditions lead to continuous strife between the workers and the State; the troubles culminated in 1914 in a protracted strike with the social and political evils of a government being industrially at issue with its own citizens;

7. Parliament found it necessary during the earlier development of the Monopoly to entrust the business to private control, thereby hoping to remedy mismanagement and procure additional revenues; the contracting syndicate conducted the Monopoly with financial success both from its own

and from the Treasury point of view; after a fifteen-year period of private management, during which these satisfactory results were attained, the concession reverted to the State.

CHAPTER VII

The State Tobacco Monopoly in Austria

App. V; 35; 95; 97; 98

1. HISTORY AND ORGANIZATION

Government Monopoly in the production and sale of tobacco in Austria was originally instituted in 1670, and has continued in one form or another ever since, except for the period 1703–23, when it was suspended. From time to time it was rented to farmers of the revenue, but direct control by the State was definitely established in 1784. The present management and the various regulations governing production, importation, manufacture, and sale are based on the Customs and State Monopolies Ordinance of 1835.

When the Austro-Hungarian settlement was made in 1867, the administration of the Monopoly in Hungary was separated from that in Austria, and is now conducted as an independent concern under the Hungarian Finance Ministry. But though the two Monopolies are autonomous, they are controlled on precisely the same principles, with uniformity as to products and selling prices, and their directing boards, as a matter of course, act in co-operation. Supplies from one Monopoly to the other are provided at cost price, an arrangement specially necessary from the Austrian point of view, since the indigenous raw material is produced in greatest quantity in Hungary, and Hungarian leaf constitutes the bulk of the raw material employed. There is also an independent

State Tobacco Monopoly in the Bosnian-Herzegowinian territory, but it is likewise governed on the same principles as the Austrian. The three Monopolies being the same in character and administered on the same lines, it is only necessary to describe the organization and results achieved in Austria alone.

2. GENERAL MANAGEMENT

App. V; 35; 36

The Austrian Monopoly is operated, under the Finance Ministry as supreme authority, by two separate State departments—the General Direction of the Tobacco *Régie* on the one hand, and on the other hand by Inland Revenue authorities and inspectors belonging to what are known as the *Finanz-Landes Direktion*, the *Finanz Direktion*, and the *Finanzwache*. The Tobacco *Régie* purchases and manufactures the tobacco for the Government, manages the State factories and the warehouses for finished goods, and takes charge of the technical work of the tobacco-growers. The Inland Revenue authorities control the sale of tobacco through wholesalers and retailers to the public, and collect the revenues. Their duties cover a wide field. They enforce the fiscal regulations on the plantations; they grant and supervise licences to planters, storekeepers, and retailers; inspect premises; check accounts; audit stock-taking returns; see that each seller restricts his trade to his allotted territory; ascertain if the tobacco in hand is of the right kind and of prescribed quantity; and make periodical and surprise visits in pursuit of their functions, in connection with which they are armed with legal powers under courts or boards and can prosecute for transgressions of the law protecting the Monopoly.

The management of the Austrian is in certain respects similar to that of the French Monopoly, the selling arrangements being under a set of officials separate from those that control manufacture. There is this difference, that while in France the manufacturing side of the undertaking controls tobacco-growing, both fiscally and technically, in Austria the fiscal control of tobacco-growing is placed under the same board of officials as that which takes charge of the sales.

App. V; 32, p. 49; 35; 36

3. TOBACCO-GROWING

Tobacco-growing in Austria is conducted on a comparatively small scale, the purely Austrian crop being about one-fourth as much as the supplies grown for the Austrian Monopoly in Hungary. The total Austrian area devoted to growing is only about 10,000 acres. The parts of the country where permission to cultivate may be obtained comprise most of the divisions of Galicia, the neighbouring divisions of Bukowina, a part of South Tyrol, and practically the whole of Dalmatia. Elsewhere tobacco-growing is strictly forbidden. Persons desiring to cultivate tobacco must obtain a special licence (through the Inland Revenue officials) for the purpose, and the licence being granted the planters are bound by it to obey all regulations governing cultivation, fiscal surveillance, and the delivery of the whole crop to the Administration.

App. V 95; 97

The system of cultivation differs somewhat in the different tobacco-growing districts. In Galicia and Bukowina the licence is issued for a stated area; in South Tyrol and Dalmatia for a stated number of plants. In South Tyrol the custom is to sell the leaf in green condition, since it contains so much moisture that desiccation is more economically

effected in bulk; this work is done under contract by private persons. All indigenous leaf, including the Hungarian, reaches the cultivation receiving depots in unfermented condition, and expenditure has to be incurred on fermenting and other processes before the leaf is in a state ready for manufacturing.

4. MANUFACTURE

The raw material obtained from the Austrian and Hungarian plantations is supplemented by leaf purchased abroad. The foreign leaf comes mainly from America, Turkey and Asia, and enters into the manufacture of the better class goods, making up about 35 per cent of the total raw material employed. App. V; 32; 95

The factories are thirty in number, and all are owned by the State. Cigars are produced in all these establishments; twenty-one manufacture cigarettes; seventeen manufacture cut tobacco; spun tobacco (roll and twist) is confined to five factories and snuff to three. A small quantity of roll and twist is also produced in two of the raw material receiving depots. In addition to Austrian goods, the Monopoly also provides a selection of imported manufactures, consumed in small quantity and heavily taxed.

Manufacture being the exclusive privilege of the State, no private persons are allowed to take part in it. The prohibition has to be comprehensive in order to prevent fraud and smuggling, and 'manufacture' is held to include any tampering with tobacco by way of business, however legally the tobacco may be obtained. Any one, for instance, who makes up cut tobacco into cigarettes for sale is regarded as an offender against the law and is liable to prosecution as an illicit manufacturer. App. V; 35; 36

App. V; 32, pp. 101–3

5. SELLING ARRANGEMENTS

Finished goods are delivered from the factories to the selling warehouses (*Verschleiss-magazinen*) and selling stations (*Verschleiss-ämter*) which, like the factories, are managed by the General Direction of the ***Régie***. There are seventeen selling warehouses and thirty-four selling stations, many of the latter being attached to factories. From these the wholesalers (and a few retailers) procure their supplies, and at this point the general management of the selling arrangements and the fiscal control involved pass into the hands of the Inland Revenue officials, who do not belong to the ***Régie*** administration but are directly responsible to the Finance Ministry.

App. V; 32; 35; 36

6. WHOLESALERS

Wholesale stores are classified according as they are main stores or subordinate stores. The former receive their supplies direct from the ***Régie*** warehouses or selling stations; the latter are dependent on certain of the main stores. In 1912 there were 982 wholesalers, 750 occupying main stores and 232 subordinate stores. None are State employés; they are in business as traders, and buy their stocks subject to an agreed discount on the wholesale price. Appointment to the stores is made under contract by competition and is decided in favour of the applicant who agrees to accept the lowest discount on his purchases, other qualifications being taken into consideration. But as the stores have each their allotted trade, they are not in competition with one another, and a definite share in the Monopoly of sale is guaranteed to each. No mention is made of wholesale stores in the

assessment of capital belonging to the Monopoly, and the presumption is, therefore, that the premises used are either owned or rented by the occupants; the rent paid or payable, of course, means a deduction from the storekeepers' profits from the trade. Some wholesalers are permitted also to carry on a retail business, which must, however, be kept apart from the wholesale trade.

7. TOBACCONISTS

App. V; 32; 36

The great majority of the retail tobacconists (of whom there were 70,401 in 1912, including those engaged also in wholesale business) procure their goods by purchase from wholesalers; some, as stated above, are directly supplied by the *Régie* warehouses and selling stations. In addition to these ordinary retailers, who handle goods of 'universal' sale, constituting the great bulk of products consumed, there has been a particular class of shop (in 1912 numbering 187) where imported products and certain Austrian goods called 'specialities' were alone obtainable. These special goods, generally of better quality and sold at higher prices, have been made, step by step, articles of universal sale, and at the end of 1913 the restriction (so far as it affected Austrian-made goods) was abolished.

App. V; 29, Dec. 1913

Retail tobacconists are appointed partly by patronage, the privilege of sale being granted to former State officials or their dependents; and partly under contract as a result of public auction. The latter method is adopted especially where the business has a large turnover, and the bids at the auction are expressed in offers to pay back a proportion of the profits (*i.e.*, of the retail commission) the shop is calculated to earn. He who is willing to pay back most secures the appointment,

provided his qualifications are otherwise satisfactory. The normal retail commission is 10 per cent of the retail price, but wherever rebates or repayments are made it will be less than 10 per cent by the amount of the rebate.

App. V; 95; 97

Like the wholesale stores, retail shops have a given radius allotted to each, within which the seller has the monopoly of the trade. The contract granting the right of sale to either wholesaler or retailer and imposing the attendant obligations, can be annulled by either party (viz., the Monopoly or the seller) on three months' notice without stating cause. The Administration reserves the right also to close shops altogether at any time.

Permission to sell tobacco is also given to hotels and innkeepers, but sales must be made only to guests and at the same retail prices as fixed for tobacconists. No profit is allowed, but there is no ban on the giving of tips for tobacco so served. Supplies are procured from the tobacconist within whose privileged radius the hotel or inn is situated.

8. FIXATION OF PRICES

App. V; 95, Vol. I, p. 167; Vol. III, p. 137

Selling prices are fixed by the central direction of the *Régie* by authority from the Finance Ministry. The Administration is in this respect quite independent of Parliament and can arbitrarily increase prices as it sees fit. When a new brand is introduced, the price of sale is determined by what will bring in the greatest revenue consistent with the estimated effect of the new introduction upon the sale of and the Monopoly profits derived from goods of the same quality already in the market. Changes in the tariffs affect stocks in the hands of wholesalers and retailers, who are refunded the amount

of depreciation incurred by decrease in prices and have to pay for the increased value due to increase.

9. PRIVATE IMPORTS

App. V; 29, *passim* App. I; Table 46

Persons desiring to import tobacco products for their own use must obtain for this purpose a special licence which is valid for one year. The licence is issued only on condition that the amount of tobacco ordered shall not exceed the personal requirements of the importer. All such imports are subject to a customs duty equivalent to 5·67*d.* per lb., and in addition, licence duties must be paid at the rate of 13*s.* 3*d.* per lb. on cigars, 22*s.* 8*d.* per lb. on cigarettes, and 11*s.* 4*d.* per lb. on other tobacco.

10. FINANCIAL RESULTS

App. I; Table 40

The revenue from the Monopoly, as reported by the *Régie* in its financial accounts for 1912, amounted to £9,565,050, equivalent to 6*s.* 7·7*d.* per head of population and 2*s.* 2·2*d.* per lb. of manufactured tobacco sold. The Austrian results may be compared with the French and Italian as follows:—

App. I; Table I

	Austria	France	Italy
Revenue per head ..	6*s.* 7·7*d.*	8*s.* 10·3*d.*	5*s.* 8·1*d.*
Revenue per lb. sold ..	2*s.* 2·2*d.*	3*s.* 7·2*d.*	4*s.* 4·6*d.*
Consumption per head ..	2·95 lb.	2·41 lb.	1·22 lb.
Average retail price per lb.	3*s.* 6·4*d.*	4*s.* 10·5*d.*	6*s.* 5·5*d.*

The figures demonstrate how the two factors on which the revenues depend, viz., consumption and rate of taxation, differ in the different countries.

Austria imposes a comparatively low tax and has a comparatively large consumption; in Italy the position is reversed, and the consumption is in fact so low that the heavier taxation fails to produce revenues corresponding to the Austrian and the French.

These comparisons, however (which are based on official returns in each case) are unfortunately not reliable, since the book-keeping systems of the several monopolies differ and all are imperfect, the Italian no doubt least so—the Italian Monopoly is at any rate charged with rent, interest, and quota of administrative expenses, items which do not find their way into the accounts of the French and Austrian Monopolies. The above table reveals a striking discrepancy in the relative excess of retail price per lb. over the revenue per lb. obtaining under the respective Monopolies. In Austria, it is 1*s.* 4*d.* per lb. and in France 1*s.* 3*d.* per lb.; but in Italy it is as high as 2*s.* 1*d.* per lb. The difference is more clearly illustrated by comparing relative expenditures per lb. manufactured, as follows:—

App. I; Tables 4, 14; 25, 34; 41, 49

	Austria	France	Italy
Expenditure, less purchases, costs of cultivation, and increase in assets	5·87*d.*	3·80*d.*	7·84*d.*
Regular (factory) wages, exclusive of bonuses, &c. ..	3·33*d.*	2·26*d.*	2·55*d.*
Remaining costs	2·54*d.*	1·54*d.*	5·29*d.*

The balance of expenses remaining after deducting purchases and wages is thus equivalent to 5·29*d.*

in Italy, whereas it is only 2·54*d.* in Austria and is as low as 1·54*d.* in France. The discrepancy is considerable and helps to confirm the effect of the omission (already proved in the case of France) of certain items from the expenditures, which in Italy are debited against the Monopoly. Examination of the Austrian official accounts will show that the revenues attributed to the Austrian Monopoly are arrived at, like the French revenues, after presenting an incomplete statement of expenses.

11. EXPENDITURE NOT ACCOUNTED FOR

App. I; Table 41

The criticism already made in respect of the French accounts might be applied almost word for word to the Austrian. Rent, interest, fire insurance, taxation, costs of managing and collecting sales, Post Office services, etc., are not charged to the Monopoly. The absence of interest charges is admitted in the Austrian Report itself, with the additional remark that as pensions of officials, superintendents, servants and operatives are not debited either to the Tobacco Sales Department or to the Tobacco *Régie*, they too have been left out of consideration. At the end of the Chapter in the Report describing factory conditions, it is stated that the payments made by the Treasury for the care and welfare of the workers, including pensions and *gratuitous* contributions to various factory institutions amounted in the year 1912 to £339,450 and this sum was independent of the *compulsory* contributions to the sickness and accident funds by the *Régie* as employer. The expenses account contains an entry (£19,650 in 1912) for the compulsory contributions though the sum does not agree with the figure quoted in the earlier part

App. V; 32, p. 94

App. V; 32, p. 38

App. I; Table 41

of the Report; but the gratuitous contributions are not mentioned at all in the expenses account, and as the sum of £339,450 not debited to the *Régie* is stated to include only pensions to operatives, it does not represent the whole sum paid out under this head. The cost of pensions to officials, superintendents, &c., is nowhere indicated.

App. I; Table 42

The valuation of the capital provides data for estimating the amount of rent and interest properly chargeable to the *Régie*. Land and buildings were valued in the beginning of the year 1912 at £1,275,250, and rent at 5 per cent would mean a charge of £63,750. The remainder of the capital in the way of plant, machinery, stocks in hand, &c. was valued at £7,235,000, interest on which at 5 per cent would be £361,750. Rent and interest combined represent therefore a charge of £425,500.

The cost of managing and inspecting the selling arrangements can only be roughly calculated but a fair approximation may be reached. It has already been repeatedly pointed out that the Inland Revenue officials are directly responsible to the Finance Ministry. They occupy, in their relations with the Monopoly, a position corresponding to that of the officials of the *Contributions indirectes* in France and of the *Guardia di finanza* in Italy; but, as in France, their services are provided free of any charge against the Tobacco revenues.

App. V; 34, pp. 427-33; 33

According to the Austrian Year Book for 1912, the total expenditure by the Finance Ministry on the *Finanzbehörden und technische Finanzkontrolle* on the *Finanzwache* was £2,548,100. We do not know how much of the internal revenue these officials were charged with collecting; they may not collect only the indirect taxes as the

corresponding officials do in France, and therefore in apportioning a quota of their expenses against the Tobacco revenues it is safer to make a conservative estimate by calculating with the total tax receipts obtained by the Finance Ministry. These amounted in 1912 to £79,872,070. The receipts from the sale of manufactured tobaccos within Austria were £13,606,300, or roughly one-sixth of the total tax-revenue of the Finance Ministry. If the expenditure of the Inland Revenue officials is apportioned in the same ratio to the Tobacco receipts, it would mean a charge of £434,000 against the profits of the Tobacco Monopoly. Probably this is an under-estimate, seeing that no allowance is made in the calculation for the cost of supervising plantations, and it is arrived at by assuming the officials collect the *whole* amount of the Finance Ministry's receipts, but it is submitted as a legitimate addition to the expenses incurred by the State in operating the Monopoly as a State concern.

The above items do not exhaust the uncharged expenses ; the others can only be mentioned without attempting to figure them. They include interest on the floating capital used by the Treasury to make current payments in behalf of the *Régie ;* the local and national taxation from which the Monopoly is exempt as a State concern but which the industry would require to pay were it in private hands ; the services performed gratis by other State departments such as the Post Office ; and insurance of buildings, plant, and stocks in hand. Without losing sight of these latter charges which are difficult to calculate, the reported profit is subject to correction by the following deductions already estimated :—

Profit as reported by the Administration ..		£9,565,050
Less: Rent and interest	£425,500	
Pensions, &c.	339,450	
Quota of expenses on Inland Revenue officials	434,000	
		1,198,950
Profit, as corrected		£8,366,100
Profit, as corrected, per head		5*s.* 9·7*d.*
Profit, as corrected, per lb. sold		1*s.* 10·9*d.*

App. I; Table 41

The expenditure as reported by the Administration was £4,567,450. It should have been, if the above uncharged items are taken into account, at least £5,766,400 ; and the meaning of these figures is that the Monopoly is made in the official statement to bear an expense which is approximately 21 per cent less than the total actually incurred in its operation by the State.

App. I; Table 44

12. VARIETIES OF GOODS SOLD

The proportion in which the various kinds of tobacco are sold and the receipts obtained from each are stated in the Appendix. Nearly 65 per cent of the consumption is in the form of cut tobacco; cigars make up nearly 14 per cent and cigarettes slightly more than 15 per cent. Roll, twist, and snuff together constitute only a little over 6 per cent of the goods consumed.

The Austrian Monopoly differs from the French and the Italian in the efforts made by the Administration to stimulate consumption by supplying a comparatively large assortment of the various kinds of tobacco. That is to say, the assortment is large compared with what is provided in the other Monopoly countries; but it is very much limited if it is compared with the enormous variety of

products offered to smokers in countries where the trade is not controlled by the State. Leaving out of account the numerous imported products, since their sale makes up less than one-tenth per cent of the total consumption, the Austrian Monopoly supplies from its own factories 42 brands of cigars, 26 brands of cigarettes, 30 brands of cut tobacco, 7 brands of spun tobacco, and 28 brands of snuff; being 133 brands altogether, 22 of which are sold only in certain districts or to certain persons.

App. I; Table 48

App. V; 32, pp. 62–74

This assortment is however more apparent than real, for it principally embraces higher-priced articles out of reach of the average smoker. If sales are dissected according to quality (as determined by price paid) it is found that the cheapest goods selling at an average of 1*s.* 8½*d.* per lb. make up 65·30 per cent of the total consumption; medium-priced goods selling at an average of 5*s.* per lb. make up 23·13 per cent of the total consumption. The great bulk of consumers enjoy a very limited choice as is illustrated in the following table:—

	Cheapest goods	Medium-priced goods
Brands of Cigars	7	3
Cigarettes	4	6
Cut Tobacco	5	9
Roll and Twist	6	1
Snuff	10	15

The rest of the Austrian varieties and the numerous brands of imported products, especially cigars, belong to the highest-priced goods which

make up only 11·57 per cent of the total consumption. The Monopoly in fact provides a selection of brands only to those who can afford to pay for the best tobaccos it provides.

13. INCREASE IN PRICES

App. I; Tables 40, 47

The increase in the profits of the Monopoly in recent years is shown by a comparison in the Appendix of the results for 1902 with those for 1912. In the former year the revenue was £5,635,800, equivalent to 4*s.* 3*d.* per head; in the latter it was £9,565,050, equivalent to 6*s.* 7·7*d.* per head. There has been a positive increase in consumption during the same time, but consumption per head has diminished and the increased revenues are to be attributed in the main to increased selling prices, additional taxation having been imposed on all kinds of tobacco with the exception of snuff. The higher prices are partially demonstrated in the comparison of average prices per lb., viz., 2*s.* 5·5*d.* the average in 1902, and 3*s.* 6·4*d.* the average in 1912; but comparisons of this kind disguise the actual increase in burden imposed on consumption, seeing that increased prices are usually accompanied by considerable displacements. The abandonment of dearer goods in favour of cheaper articles is a natural effect of taxation. It was at any rate one of the marked results of the Austrian increase in prices at the end of 1911, the Report for 1912 stating that the sale of certain cigarettes, which were increased in price from 2*d.* to 3*d.* for 10, diminished by 27½ per cent; the decrease was 34 per cent where the price was raised from 1*d.* to 2*d.* for 10; 29½ per cent with price altered from 4*d.* to 5*d.* for 10; and so on. On the other hand

App. V; 32, p. 58

the sale of the cigarettes, whose price had remained at 1*d.* for 10, increased by 131 per cent, while another cigarette sold at 4*d.* for 10 with price unaltered increased by 44 per cent. Smokers preferred to take inferior goods rather than pay the increase, and the effect of this displacement of consumption upon the average prices of all goods sold is apparent. The changing relations between consumers or taxpayers and the Monopoly could be more clearly demonstrated were it possible to quote the selling prices of specific articles and their comparative consumption over a series of years.

14. RAW MATERIALS AND COST PRICES

In the section of the Official Report (1912) dealing with the acquisition of tobacco, the purchase-price of Austrian and Hungarian leaf is stated to have been £806,100, equivalent to an average prime cost of 2·45*d.* per lb. When, however, the expenses account attached to the final balance for the year is examined, no corresponding entry can be found; there 'indigenous leaf bought' is entered as having cost £946,250. No explanation is given of the difference (£140,150) between the cost of the tobacco in the expenses account and the purchase-price first stated, but it may be assumed that the £140,150 represent the cost of fermentation and preparation of the leaf, since there is no separate item in the expenses account disclosing the expenditure on such necessary processes. On this assumption, the average value of indigenous leaf (in a condition ready for manufacturing) works out at 3·60*d.* per lb.; and the average value of all leaf, home-grown and foreign, at 6·28*d.* per lb. The latter figure may be recorded as a criterion, in comparisons with other countries where

App. I; Tables 41, 43

the cost of leaf is known, of the relative quality of the raw material used in the manufacture of the Austrian *Régie* products.

App. I; Table 50

Indigenous leaf and imported leaf were employed in the proportion of 64·5 per cent to 35·5 per cent respectively. In the process of manufacture there was a loss of more than 5 per cent in the difference between the weight of raw material and of finished goods.

App. I; Table 46

Details of the cost price of each class of goods at the annual stock-taking are lacking, but taking net expenditure as the basis, the average cost of all Austrian-made tobacco was 1*s.* 0·5*d.* per lb. The average wholesale selling price was 3*s.* 2·2*d.* The cost prices of imported products, deducted from the average wholesale selling prices, show a difference of 19*s.* per lb. for cigars, 20*s.* 5*d.* per lb. for cigarettes, and 12*s.* 7*d.* per lb. for cut tobacco, which illustrates the extent to which dearer goods are taxed in Austria.

15. EXPORT TRADE

App. I; Table 45

The export of products manufactured by the Monopoly is effected through foreign agents appointed under a concession, and the goods are sold at prices considerably less than the prices ruling within Austria. The trade is small, and in 1912 amounted to only 1,915,600 lb., or 2·18 per cent of the total sales by the Monopoly, excluding tobacco extract. The tobacco so exported is principally sent to Germany, and is consumed largely by Austrians habituated to the products of their own country.

App. V; 98, pp. 176, 202

16. EMPLOYMENT AND WAGES

App. V; 32, 21

The working week in the Austrian tobacco factories consists of 51 hours, Saturday afternoon

being free. The work is performed mainly by female labourers, of whom there were 32,297, as against 4,971 male labourers, the ratio of women to men being as 65 to 10. Of these, 22,739 women and 326 men were engaged in cigar making. Adding to the number of ordinary workers (37,268), the number of managers, superintendents, foremen, &c. (999), the total number of persons employed in the factories was 38,267. The Austrian factories, with approximately the same weight of output as the French, thus employ nearly twice as many tobacco workers. The difference is probably due to the nature of the output, which includes in Austria a relatively larger production of cigars.

App. I; Table 49

Employés are classed according as they are paid by the week, by the day, or by the piece; the great majority are piece-workers. The day-workers include casuals, who are engaged and dismissed as occasion demands. Details of wages paid, apart from bonuses or contributions by the Administration or the Treasury to benevolent funds, &c., show that the 1,426 male piece-workers had an average weekly income of 21*s.* 4*d.* each, while the 28,905 female piece-workers had 12*s.* 2*d.* each on the average.

App. V; 32, pp. 16–18

17. UNSATISFACTORY ACCOUNTING

App. I; Tables 41, 49

The wage statistics, from which the above particulars have been taken, are contained in a special section of the Report dealing with labour conditions. The sums quoted there are at variance with corresponding entries in the expenses account belonging to the financial statement. One of the items in this account is called 'manufacturing costs and wages,' and a footnote places £1,215,250 against wages. Yet in the earlier descriptive

section the total factory wages appear to have been £1,252,450. Wages and salaries of all kinds (in factories, depots, &c.) total £1,356,500, according to the expenses account, whereas the total for the same items as detailed in the earlier sections of the Report is £1,437,500. There is thus a shortage in the expenses account of £81,000, unless perhaps this sum is buried in some other item, although it is difficult to see where it could be included.

App. V; 32, pp. 11, 23

The expenses account, as already pointed out, is at fault in other respects. It is made up of entries generously slumped together, and, save in those few cases (purchases, wages, sickness funds and accident insurance, wholesale discounts), where comparison with other figures in the Report is possible, there is an entire absence of information by which the entries can be checked; and where they can be checked, every comparison reveals a discrepancy. The lack of important financial details and the perfunctory methods of accounting stand out in striking contrast with the infinite care bestowed in the Official Report upon the thirty-four page description and tabulation of accidents, illnesses, deaths, births, use of dining halls, soup kitchens, &c., and of the various efforts made by the Administration to supplement wages of men and women paid 21*s.* 4*d.* and 12*s.* 2*d*, per week respectively.

App. V; 32, pp. 12–45

18. RETAILERS AND THEIR PROFITS

App. I; Table 51

The Monopoly allows retail tobacconists a commission averaging 10 per cent on retail prices, but, as already stated, the commission is often less owing to the retailer's obligation to repay a portion of annual profits to the Administration. Returns for the year 1912 show that the average annual

profit of the 70,401 retailers, after deducting repayments, was £18 10s. The profit varies within wide limits, as is shown by the fact that 3,749 of the larger shops (*Haupttrafiken*) selling tobacco only, had an average income of £127, while 28,960 shops trading in other articles as well had an average annual profit from tobacco of only £9 12*s.*; these figures are subject to deduction of repayments.

A Swiss writer, Dr. Fritz Krömmelbein, discussing proposals for a Swiss State Tobacco Monopoly, says with regard to the Austrian tobacconists: 'It is often the case that they can only make ends meet by means of other trade attached to their shops. Volumes have been written on the condition of the tobacconists, but it would occupy too much space to deal in detail with all the complaints and grievances which are put on record and continually find expression in their trade journal'. App. V; 61, Feb. 13, 1915

19. SUMMARY

In our study of Austrian conditions we have not had the advantage of consulting those outside sources of information (trade journals, press references, etc.), from which alone knowledge may be gained of popular opinions about the quality of goods sold; of the views held among consumers, employés, and tobacconists concerning their relations with the State; or of other industrial, commercial and political aspects of the business. Since August, 1914, it has naturally been impossible to procure such information, so that we have been limited to an examination of Austrian and foreign official documents, and they contain purely colourless reports and statistics. The facts presented

there are however instructive enough, and they permit the following conclusions to be drawn :—

1. The financial accounts are incomplete and in certain particulars inconsistent; they obviously overstate by a large amount the figure of profit derived by the Monopoly; the expenses omit at least one million pounds of charges the Administration ought to bear;

2. Wages in the factories, especially of the female piece-workers, who largely predominate, are low; retailers, although they enjoy a privileged position, make on the average little profit from their trade;

3. The cultivation of tobacco in Austria is not widely extended; the bulk of the raw material comes from Hungary, and the price paid for that indicates it is of inferior description;

4. The Monopoly manufactures a limited number of staple brands, and the humbler purchaser has little choice of variety; the small sale of the Monopoly's products abroad indicates difficulty in meeting competition in the open market;

5. Bureaucratic authority and dictation are developed to a high degree and in all directions, so much so that taxation is entirely divorced from control by Parliament, prices being fixed independently by the head officials belonging to the Monopoly and the Finance Department.

CHAPTER VIII

The State Tobacco Monopoly in Japan

1. THE ORIGIN OF THE MONOPOLY

App. V; 39–43; 94

Japan is one of the more important of the tobacco-growing countries of the world, its production being exceeded only by that of the United States, India, Russia, Austria-Hungary and the Dutch East Indies. The domestic leaf is devoted to and almost wholly supplies the requirements of consumption in Japan. It does not find its way into foreign markets except in small quantities.

Tobacco was not subject to taxation in Japan until as late as 1876 when the Government imposed two specific taxes; a business tax of 15 yen (30*s.* 9*d.*) on manufacturing and wholesale businesses, and 5 yen on retail trade; and a revenue tax or stamp duty on manufactured goods at the rate of 20 per cent of retail selling prices. This system underwent frequent changes, for the taxes were often evaded and produced but little revenue, the yield in the last full year of their operation amounting only to £327,100. It remained in operation until 1898, that is to say until the time when Japan, burdened with the costs of the 1894-5 Chinese War and in urgent need of funds for various public works, found it necessary to overhaul its finances and discover new sources of revenue. The incidence of taxation on tobacco was radically altered; the business and revenue taxes were abandoned; and by a law enacted in

1896 a State Monopoly in the purchase and re-sale of Japanese leaf was established in January, 1898. The Monopoly Law did not at first apply to foreign leaf, but the Government was led to take action after the natural advance in the price of the home-grown article had stimulated the use of the competing American leaf in domestic manufacture. Certain cigarette companies enlarged their plant and the importation of raw material for these factories increased from £32,600 to over £274,000 in one year. The Monopoly was extended to the foreign leaf toward the close of the fiscal year 1899–1900.

The final step in the direction of the existing complete State Monopoly over purchase, manufacture and sale, was taken in the law passed in April, 1904, when the need for increased revenues had again become imperative, owing this time to the costs of the Russo-Japanese War. The Monopoly took effect on July 1, 1904.

For the additional taxation of tobacco it had been found that the Monopoly over the leaf alone was inadequate. The income under that system had depended on the purchase and sale of raw tobacco, but as crops were very variable both as to quantity and value, the yearly receipts were correspondingly unstable. Moreover, the extent of the lands on which cultivation was permitted fluctuated continually and constant alterations took place in the plantation districts. Under these conditions growers found themselves in an insecure position; they neglected to observe the regulations governing cultivation or to make any improvements in their methods, and that had bad effects upon agriculture generally. An addition to the State revenues from the leaf Monopoly could only have

been procured by increasing the difference between cost and selling prices, and illicit sales of raw tobacco would have become a frequent occurrence most difficult to keep under control. After a careful investigation into systems of tobacco taxation in other countries, it was decided to introduce the complete industrial Monopoly, having the object on the one hand to remedy the defects of the leaf Monopoly, and on the other hand to yield a greater income for the State.

The Government had to legislate out of the trade a large number of manufacturers, dealers in leaf tobacco, and sole agents for trade marks. The terms granted were :—

A. To the manufacturers : (i) For loss of business compensation equivalent to 20 per cent of average gross annual receipts received during the two years, 1902 and 1903, except that where a factory was not started before 1st February, 1902, the gross receipts in 1903 were taken as the basis. In the event of 20 per cent of gross receipts being less than 500 yen, £51 4s., that sum (500 yen) was allowed in compensation ;

(ii) Purchase of land, buildings and machinery, (where such were required by the Monopoly administration), and of leaf tobacco in store ;

(iii) If land, buildings and machinery were not fully expropriated the owners received a sum equal to one-sixth of the compensation granted for loss of business.

B. Dealers in leaf tobacco and sole agents in Japan of tobacco having trade marks manufactured in foreign countries, or in Japan with materials produced in foreign countries, were granted compensation corresponding to 10 per cent of average gross annual receipts ; and in the event of gross receipts being less than 250 yen, that sum was allowed in compensation.

The total sum of money voted by way of compensation to the manufacturers was limited to £932,000, and any excess of that amount, which would have been required to meet the total of the compensation as calculated in all individual cases, was to be deducted in proportion from the sum

allowed to each party. The total sum for compensation to the dealers in leaf and the sole agents was limited to £204,800.

Many manufacturers and dealers, instead of accepting compensation, took advantage of the alternative offer of appointments to the wholesale or retail trade under the Monopoly.

2. TOBACCO-GROWING

Under the free conditions obtaining until lately, the tobacco-growing districts had been scattered irregularly over the country; but with the leaf Monopoly in operation, the Government found it necessary to place a number of limitations on cultivated areas in order to be able to exercise better control over the growers, and the tobacco plantations are now grouped together in certain districts only. The growers must obtain special licences, and under the licence are subject to stringent rules and regulations.

For the improvement in the quality of the leaf the Monopoly began experimental culture in March, 1903, and in December, 1904, established a special institute in Hatano for instruction and research.

App. I; Table 57

Prices paid to the growers have varied from year to year, and show on the whole a gradual increase, although they still remain low. For instance, in 1905–6 the average price of the crop was 2·11*d.* per lb.; in 1911–12 the average was 2·68*d.* per lb.; and in 1912–13 3·37*d.* per lb. The higher prices in the later years may be explained by a gradual improvement in average quality, growers producing relatively more of the better-grade types of leaf; or they may possibly mean that the Government, giving better terms to the planters, has raised the scale of prices offered for the various types. One

or other cause, or both, must have been at work, particularly in 1912–13, since the average price in that year (3·37*d.* per lb.) was considerably above the average (2·68*d.* per lb.) for the whole period of the eight years from 1905–6 onwards.

3. EFFECTS OF GOVERNMENT RESTRICTIONS

The result of the grouping of plantations, which has been noticed above, was that during the three years succeeding the introduction in 1898 of the original leaf Monopoly, the tobacco-producing villages and towns were reduced in number from 6,100 to 2,000, and the area devoted to cultivation from 102,900 acres to 97,800 acres. In later years the Administration has still further consolidated the industry, and in the year 1910–11 only 1,226 villages and towns had tobacco planted within their districts, the total area being only 72,826 acres.

App. V; 39, p. 4

The Government has aimed not only at the unification of the tobacco-producing areas, but also at the regulation of the types of leaf grown, which have been reduced from the large variety formerly produced under free conditions to a limited number conforming with the standard specimens established by the Monopoly. These restrictions have no doubt facilitated State control and made it easier to assess and pay for the leaf requisitioned by the Monopoly, but they can scarcely have been in the best interests of tobacco-growing as a branch of agriculture. For the Government, the chief purchaser, is concerned only with obtaining tobacco of the quality and quantity best adapted for the imposition of taxes; the industry of the growers is in fact treated as an essential part of a fiscal machine constructed to work with as little expense and with as much efficiency as possible.

Interference with the growing of tobacco wherever people liked to plant it, and with the production of whatever type of leaf was found suited to the soil or climate of any particular district, has been followed by a marked decline in the export trade, which once promised to make progress. Although this has been the sequence of events, it is true that the Official Account (1912) of the Monopoly attributes the decline to quite a different cause: the introduction of the leaf Monopoly, having the result that 'the demand for leaf tobacco at home rose considerably and encroached on the supply of export leaves, which enhanced prices enormously, and there (*sic*) an inevitable collapse of the export business set in'.

App. V; 39, p. 9

The explanation does not satisfy, since nothing had happened to increase permanently the consumption of tobacco at home, and certainly the Government did not buy for export; in any case it cannot be said there was much encouragement to meet the demands of both home and foreign trade when at the same time the area of cultivation and the planters' own initiative were brought so arbitrarily under control. That the decline in exportation was not only a sequence, but also a result of administrative restrictions, can at least be inferred from the story of the export trade in leaf as told in the Official Account (1912) itself:—

App. V; 39, p. 9

> It was in June, 1873, that Japanese leaf-tobacco was for the first time exported to a foreign country; it was at that time that about 1,125 kilograms [2,475 lb.] of the leaf produced in the district of Nambu was exported to London. More or less exports were since repeated, but at the time the exporters were unaware of the tastes and demands in the country where the tobacco was destined to, and moreover, as the fermentation of the leaf was not properly done, the exports did not increase beyond sample quantities unworthy of notice. In 1883, however, Messrs. Raspe & Co. of Yokohama

newly effected a proper fermentation of the Japanese leaf of the Nambu brand, the result of which was excellent and the leaf's reputation in London whereto it was exported considerably rose, and this leaf since came to be exported continually. Later on, in the year 1887, the exporters paid special attention to the selection of the kinds and qualities of the export leaves according to the various producing districts, as the result of which, the exports noticeably increased both as regards the kinds and quantities, and from 1890 down to 1898 the various leaves grown in the districts of Nambu, Matsukawa, Renge, Daruma, Kirigasaku, Hatano, Miura, Enshu, Fuji, etc., were exported annually in large amounts, of which the greatest amount in one year came to over 1,125,000 kilograms [2,475,000 lb.]. This was the climax of the flourishing state of the Japanese tobacco leaf exportation. The chief destination was London, while small quantities were being exported to Holland, Belgium, Singapore, and Hongkong.

In 1912 the exports of leaf were only 476,900 lb., and in 1913, 471,750 lb. The average value was respectively 4·20*d.* and 4·40*d.* per lb. App. I; Table 55

4. MANUFACTURE

The manufacture of cigarettes was commenced in July, 1904, and that of cut tobacco in April of the following year. Only the larger and better-equipped private establishments were purchased by the Administration, but as they could not supply more than a part of the consumption, provisional arrangements were made with a number of firms to manufacture under contract pending the construction of the new Government factories. The estimated cost of these factories was £1,468,800; they were expected to be finished in 1919, and when they are completed there will be five new factories for cigarette manufacture, thirty-two for cut tobacco, and several branch workshops. Most of the new Government buildings are now working, cigarettes and cigars being made exclusively by the Monopoly, but the system of contracting with App. V; 39, p. 10 App. V; 43, p. 158

private firms still obtains in respect of some portion of the cut tobacco required.[1] The Monopoly has a special factory and workshops in Fushimi for printing, box-making, plant and machinery repairs, wood and iron-working, and the testing or examination of manufactured goods.

App. I; Table 54

The tobacco produced by the Monopoly comprises cut tobacco, cigarettes and cigars.

App. V; 39, pp. 12–13, 35

The cut tobacco, of which there are nine brands, ranging in price from 1·20 yen to 22 sen for 40 momme (7*s.* 5*d.* to 1*s.* 4·5*d.* per lb.) is manufactured entirely from domestic leaf, and constitutes approximately 82 per cent of the tobacco consumed in Japan.

The rest of the consumption (except for small sales of cigars) takes the form of cigarettes. These are of two kinds: with mouthpieces and without mouthpieces. The former are made from domestic leaf and are sold in ten varieties at prices ranging from 15 sen (3·68*d.*) to 7 sen (1·72*d.*) for packets of twenty. The latter are made from American leaf—except for three brands, two of which are of Turkish leaf and one of Turkish and Japanese leaf mixed—and include ten varieties; the highest price is 25 sen (6·14*d.*) for packets of ten, and the lowest 5 sen (1·23*d.*) for packets of twenty.

Cigars are made of Manilla leaf and in seven varieties, the prices of which range from 26 yen (53*s.* 3*d.*) to 3 yen (6*s.* 2*d.*) per 100; but their sale is negligible. The imported article supplies the greater part of what consumption of cigars there is.

[1] The *Complete Account of the Monopoly System* (1912), stated there were then 110 private factories engaged in these contracts, and that the Monopoly was itself operating nine cigarette factories, one cigar factory, and twenty cut tobacco factories, with thirty-four branches attached to them.

5. DISTRIBUTION AND SALE

Certain of the factories are employed as selling offices for the distribution of the goods to wholesalers, and there are also sundry special 'Monopoly Bureau branches' established for that purpose. The organization is such that sixteen selling offices distribute the home-made cigars and the imported tobaccos; forty-seven distribute the home-made cigarettes; and fifty distribute the home-made cut tobacco. Each office has its own defined area of operation. App. V; 39, p. 33

Wholesalers and retailers are specially appointed by Government under a licence for a stated period. The first licences, granted for five years, expired on June 30, 1909. Those traders who were reappointed on that date got their licences for a further term of three years, but many licences were withheld as part of a general plan for reorganizing the selling arrangements and limiting the number of agents engaged. The country was divided into 450 business districts, and each wholesaler and retailer was brought under direct administrative control, was obliged to manage his shop according to official regulations, and was restricted to a defined area. The effect of this reorganization has been that in 1910 the wholesale firms numbered 447 and had occupancy of 1,012 stores, whereas in 1905 there had been 1,764 persons in the trade. In 1907 the retailers had numbered 358,817; at the end of 1909 they had been reduced to 190,410. It is said in the Official Account (1912) that this 'consolidation' of the retail business was being continued.

The alleged excessive number of wholesalers and retailers in earlier years is attributed to the absence of restrictions at that time, and to the fact

that in many cases the former tobacco manufacturers and commission agents waived their right to compensation and, being given the preference of appointment as wholesalers or retailers, accepted the trading licences under the Monopoly. But, as it appears, the Government has since found it necessary to take arbitrary measures in reducing the licences and in ordering that those traders 'found to be unfit for the business should be eliminated'.

App. V; 39, p. 31

The retail price-list is established and published by the Government, and in no case is any tobacco allowed to be sold to consumers at a price other than the price so fixed. Wholesalers buy from the selling offices at these prices less a fixed discount of 15 per cent for most goods, and on selling to the retailers add their profit which must be within 3 per cent of the retail price; the retailers, therefore, receive the balance of the discount, making a profit of 12 per cent on the value of sales to consumers. For some goods (Turkish-leaf cigarettes, cigars under 8 yen or 16*s.* 5*d.* per 100, and imported tobacco), the discount allowed by the selling offices is 20 per cent; for cigars selling at 8 yen or more the discount is 25 per cent. In the case of these higher discounts, the wholesalers retain 5 per cent and the retailers receive the balance; but it may be noted that the goods affected by the higher discounts make up only a very small part of the total consumption.

App. I; Tables 52, 53

6. SELLING PRICES AND CONSUMPTION[1]

When the Monopoly was extended to manufacture and sale in 1904 retail prices were raised

[1] There are no available official data of *total weight* of tobacco consumed in Japan. Cigar and cigarette consumption is expressed by numbers sold, and only cut tobacco by weight. The succeeding figures, both of average selling prices and of consumption per head,

by 20 per cent; three years after, in December, 1907, the Government again increased prices, adding from 20 to 40 per cent to home-made tobaccos and 30 per cent to imported products. Since the latter increase, the average selling price has been 2*s.* 2·7*d.* per lb., which is moderate as compared with the average in the other countries we have considered. The price may be taken as a criterion of the inferior quality of the tobacco sold, the Japanese raw leaf from which it is made being valued at a relatively low figure in both home and foreign markets. But apart from that being a possible reason for the moderate selling price, social conditions in Japan are so altogether different from and wages so much below European standards, that what may seem a low price to us may not be regarded as cheap by the average Japanese consumer. It is a question that could only be answered satisfactorily by comparing rates of wages and prices of staple commodities in Japan with wages and prices elsewhere.

Looking to Japan itself without instituting any such comprehensive test, it appears that the Monopoly does impose an appreciable and repressive tax on the smoker. In 1906–7 when the average selling price was 1*s.* 7·1*d.* per lb., consumption was 1·50 lb. per head. The effect of increasing the price-list in December, 1901, was to reduce consumption; in 1910–11 it was only 1·33 lb. per head, and during the subsequent two years consumption

for the years 1906–7 and 1910–11, are accordingly an estimate, and are arrived at in Tables 53 and 54 (App. I) by assuming 1 kilogramme = 1,000 cigarettes = 250 cigars, the equivalents adopted by the French *Régie*. The 1912–13 figures are derived from consumption in 1910–11 by reference to the net revenues in 1910–11 and 1912–13 respectively, which may be justified since there has been no reported alteration meantime in the retail prices of tobacco.

has not been restored to the 1906–7 level. In 1912–13 we judge, from the data available, it was 1·41 lb., being much below the figure for any other country except Italy, where, as in Japan, it cannot be said that the State succeeds in putting what it produces within easy reach of those to whom it should cater. In both countries the Monopoly is far more an engine of taxation than a supplier of goods—if it is possible to set up any relation at all between two such conflicting functions.

App. I; Tables 55, 56

7. EXPORT OF MANUFACTURED TOBACCO

Excluding the trade in leaf supplied by the Japanese Government to the State Monopoly in Formosa, export business is carried on by licensed merchants of good business standing who have had experience in exporting. In the official *Short Account of the Tobacco Monopoly*, published in 1906, which shows signs it has been written to create a favourable impression, it is stated that 'as the result of the improvement in quality, and reduction in the cost of production, the exportation to foreign countries is daily increasing. From China, Korea, and the Maritime Province of Siberia to the Straits Settlements, Siam and Australia, all are of very great promise as markets for our tobacco'. Six years later, however, in its *Complete Account of the Monopoly System* (1912), the Direction General of the Monopolies was unable to report progress, and offered the following explanation of the state of the tobacco export trade :—

App. V; 40, p. 9

App. V; 39, p. 41

> The places to which export is made in the largest quantities are Manchuria and Korea. Just after the enforcement of the Monopoly, home-made tobacco was in very large amounts exported to these places to meet the demands of the soldiers and others in the field at the time, and this seemed to have laid the foundation of

the demand for Japanese tobacco in these districts as large exports continued even after the war. But later, competition arose in Manchuria by the products of the British American Tobacco Co. and the Russian Tobacco Co., and further, in September, 1909, an agitation for the exclusion of Japanese goods in Tientsin, Yinkow, and other northern parts of China arose, and also with the depreciation of silver in China, which took place about the middle of the year 1908, our exports gradually decreased since 1908–1909. But the anti-Japanese movements subsided after a short while, and the price of silver recovered since May, 1910, and our exports have again shown a tendency to increase in spite of the British, American, and Russian Cos.' competition being still active. However, in the latter part of the year 1909, the Toa Tobacco Co., Ltd., who were our licensed exporters to Manchuria and Korea, established tobacco factories of their own in those districts and commenced to sell their products, so that in consequence the exports of the Government products have gradually diminished. With the development of this Co.'s works, the export of Japanese leaf-tobacco to be used at the Co.'s works will increase, but that of the Government's manufactured tobacco will correspondingly decrease. From the viewpoint of foreign trade, it is always better to export manufactured goods instead of raw materials, but as Korea and Manchuria are in special relations with Japan, as is known to everybody, it is believed that the establishment of factories and the selling of their goods in these districts by our own national exertion will be a better policy viewed from the standpoint of our country's economics, than trying to export the home-made manufactures in the face of the many difficulties in the way. We can already statistically show that the total amount of sales of our manufactured tobacco in Manchuria and Korea (the total of the exports from Japan and the sales of Toa Tobacco Co.'s products) has been steadily increasing of late, as compared with the amount of exports of a few years ago.

The trade figures published in the official *Statistics of Trade and Commerce* and in the *Financial and Economic Annual* do not support these contentions. In 1910 the value of cigarettes exported was £86,760; in 1913 it was £45,860. 'Other tobacco' (including leaf) exported was valued at £41,950 in 1910, and at £11,720 in 1913. There has thus been a decline from £128,710 to £57,580 in the total export trade within four years, and if statistics

App. I; Tables 55, 56

prove anything, they prove that the Japanese Monopoly has not been able to withstand competition in its foreign markets. Going back to the earlier Official Account of 1906, the expectations entertained there read strangely in the light of the trade returns in the other publications abovementioned; for the average value of exports during the years 1906 to 1909 was £205,940, and during the years 1902 to 1905 the average was £274,300. As we have seen, the trade has since fallen to only £57,580 in 1913.

App. I; Tables 52, 53

8. FINANCIAL RESULTS

The net income derived from the Monopoly was officially reported in 1912-13 as £5,698,200, corresponding to 2*s*. 2·1*d*. per head of population. The quantity sold is estimated in the Appendix, in the absence of specific data, to have been approximately 74,000,000 lb., and the revenue was therefore equivalent to 1*s*. 6·5*d*. per lb. In proportion to population and consumption, the Japanese Monopoly is the least productive of all the State Monopolies that have been considered; but in this connection the necessarily low limit of its yield as a source of taxation, a matter that has already been referred to, must be taken into account. Whether or not the Monopoly has actually reached its highest possible yield it would be unsafe to say. Comparative figures show only a very slight increase during the past five years, and the additional revenues are little more than should naturally accompany the increase in population.

The Japanese official documents published in English contain no record of total revenues and total expenditures of the Monopoly; there is nothing of the nature of a balance sheet which would

make it possible to check the accounts and ascertain whether all items (including rent, interest, redemption of capital outlay, insurance, &c.), properly chargeable against the administration, have been debited to the Monopoly. Subject to the reservation therefore that an opportunity to make such an analysis would have been welcome, we accept the figures of net revenue as stated in the *Financial and Economic Annual*. It is as well, however, to call attention to the remarkable decrease in the estimated profit in 1914-15, and to the official explanation of the figures, couched in the following somewhat obscure language: 'On comparing the revenue for the Financial Year 1914-15 with the Budget for the preceding year, we find . . . a decrease of yen 9,770,000 (£1,000,717) in the transfers of profit of the Monopoly Bureau[1] through a revision of the financial year relative to the postponement of payment of prices for monopoly goods which was effected with a view to the improvement of the conditions of receipts and disbursements of the National Treasury.'

This does not indicate that the decreased revenue is due to any reduction in selling prices, but rather that it is to be explained by some necessary adjustments in book-keeping methods; and if our interpretation is correct it only emphasizes the importance of a careful scrutiny of State accounts before official profits can be accepted. The result at any rate of this 'improvement of the conditions of receipts and disbursements' is to show an estimated net revenue in

[1] The Monopoly Bureau administers the Salt, Camphor and Tobacco Monopolies; the reduction in Tobacco Revenue alone accounts for yen 7,937,444 of the sum stated above. See *Financial and Economic Annual*, 1914, pp. 8 and 11.

1914-15 of only £4,690,300 whereas in 1912-13 the net profit reported was £5,698,200.

9. WAGES AND FACTORY CONDITIONS

App. V; 39, pp. 16-30

According to the Official Account (1912) the working hours are normally 60 per week, the factories being closed on Sundays, on national holidays, and during the period December 29 to January 3. The national and New Year holidays are counted as working days, and wages are paid for them. Most of the workers are paid by the piece; day wages are divided into thirteen different grades, varying from not more than 1·65 yen (3*s.* 4½*d.*) to as little as 2½*d.* per day. The *Financial and Economic Annual* for 1914 states that in 1912–13 there were employed in the Government factories 28,167 operatives and apprentices, among whom women were to men in the ratio of 277 to 100, and 497 labourers. The wages for those over fourteen years of age averaged 1*s.* 1*d.* for male workers and 6*d.* a day for female workers.

App. I; Table 58

Even with these low rates of pay, it is apparently a privilege to get employment under the Monopoly, since the Official Account (1912) refers to those applying for work as 'candidates' who must comply with certain conditions, and in particular must undergo medical examination. It is further provided that 'the hands to be admitted shall be over fourteen years of age, of strong physique, and preferably those who have finished the courses of compulsory education'. The Administration endeavours to improve factory conditions by holding classes in supplementary education, offering rewards and medals 'ceremoniously conferred' for good conduct, enforcing sanitary regulations, and contributing to the Mutual

Relief Guild of the workers. In these respects the Monopoly acts a paternal part, but its benevolence seems to be largely conditioned by the trivial wages paid to employés, and by the still primitive state of the people.

In this connexion it is worth while noticing the numerous tables and statistics relating to the industrial control of the factories, and contrasting the painstaking labour that must have been involved in gathering such a mass of detailed information with the absence of any real effort (which would have been less exhausting) to present an intelligible financial balance sheet, even in summary form.

10. MORTGAGING THE MONOPOLY PROFITS

App. V; 41, p. 38

At the time of the war with Russia, the Government issued six as well as four and a half per cent sterling loans for the purpose of meeting the extraordinary expenses connected with that war. The first four and a half per cent sterling loan of £30,000,000 was raised in London and New York in March, 1905. Its issue price was £90 per £100 face value, and the principal was to be left unpaid until February 14, 1910, and thereafter to be redeemed at convenience by means of drawings by February 15, 1925; and the service of this loan is secured by the first charge upon the net profits of the Tobacco Monopoly. The second four and a half per cent sterling loan of £30,000,000 was raised in London, New York and Germany in July, 1905. Its issue price was £90 per £100 face value, and the principal was to be left unpaid until July 9, 1910, and thereafter to be redeemed at convenience by means of drawings by July 10, 1925; and the service of this loan is secured by the

second charge (next in priority to the first loan) upon the net profits of the Tobacco Monopoly.

The interest payable by the Japanese Government on the two loans is £2,700,000. The yield from the Tobacco Monopoly for the first full year of operation (1905–6) was £3,441,900, and until retail selling prices were raised in December, 1907, the yield did not exceed 3½ millions. Thus it appears the profits were heavily mortgaged at the start, and although they have since been increased they will continue to be mortgaged for some considerable time.

App. I; Table 52

11. SUMMARY

Having described the chief features of the Japanese Monopoly as fully as we have been able to describe them from the information available, we may briefly restate the main points and draw certain conclusions, as follows :—

1. The Monopoly is of comparatively recent origin, and previous to its institution there had been only a small tax on tobacco ; the new revenues have been accompanied by considerable increases in retail prices, which are now as much as the consumer can fairly pay ; there is no evidence proving that a monopoly system was essential for the procuring of the additional revenues or that other methods could not have achieved equal or better results ;

2. It has taken a number of years to build up the industrial and administrative machinery, which even yet is incomplete, and the Monopoly must still depend in large measure on the co-operation of private manufacturers ; during the period of expropriation, building new factories and warehouses, and enforcing the monopoly regulations, much

money has been spent by the State, and many arbitrary regulations have been placed on tobacco-growing and on the retail trade;

3. The Monopoly sells only a limited number of standard brands; prices are fixed by Government, and it is not stated whether Parliament or the people have any jurisdiction over the taxation so imposed;

4. In the absence of particulars concerning capital charges and other details of expenditure, the reported profit can only be accepted with reserve; the last increase in prices caused a decline in consumption which after seven years has not been recovered; the failure to secure correspondingly increased receipts indicates that the Monopoly (with an annual profit equivalent to only 2*s.* 2*d*, per head of population) has approached the limit of its yield as a revenue producer;

5. The export trade in leaf, which under free conditions was progressing favourably, has suffered a collapse; the Monopoly itself has not succeeded in establishing a market for its products abroad, its sales (never large) having dwindled year by year to a negligible quantity.

CHAPTER IX

The Monopoly Concession in Spain

1. THE CONTRACT WITH THE CONCESSION COMPANY

App. V; 17; 44; 94; 97; 98

The Spanish Tobacco Monopoly is of long standing and has passed through many vicissitudes of direct control, concession, and even temporary suspension. Its present method of operation dates from 1887. The Government at that time was in financial difficulties and it was decided to farm the Monopoly in the hope of gaining pecuniary advantages and saving from the funds expenditure estimated at £2,280,000 per annum. The lease was granted for a period of twelve years to the Bank of Spain, which purchased existing stocks for £1,600,000 and contracted to provide a minimum annual revenue of £3,600,000. For the first three years the Treasury was to receive that sum; for the second three years, the average of the net profit during the second and third years; and for the third and fourth three years, the average during the preceding periods of three years. The net profit remaining after deducting these minima was to be shared equally between the concessionaire and the Treasury. At first the undivided profit was not as much as £3,600,000, but after 1890–1 the situation improved, and during the succeeding seven years it remained steadily at about £3,920,000; in 1898–9 it reached £4,320,000. During the last four years of direct State management (from 1881–3 to 1885–6) the annual revenue had fallen from £3,353,700 to £3,196,800.

App. V; 17, p. 235

By the Statute of March 18, 1900, renewing the laws of April 22, 1887, and August 20, 1896, a concession for twenty years was granted against a loan to the State of £2,400,000 to a company constituted as the *Compañía Arrendataria de Tabacos*. Retail prices were raised, and the new arrangement provided that the concessionaire should (after including in its expenditures 5 per cent interest on capital) pay over the net annual profits subject to a deduction of 5 per cent of the profit up to £4,800,000; 10 per cent of the part of the profit between £4,800,000 and £6,000,000; and 5 per cent of the part exceeding £6,000,000. The agreement has been somewhat amended since to meet changes in the relationship or division of the profits caused by further changes in retail prices. From January 1, 1910, the interest chargeable on capital was reduced to 4 per cent. and the division of the profits was adjusted so that the Company received 5 per cent of the profit up to £5,600,000; 10 per cent of the profit between £5,600,000 and £6,400,000; and 5 per cent of the profit exceeding £6,400,000. This scale is still in force, but applies only to the profits attributable to the 1909 schedule of prices. Extra receipts or surcharges (*recargos*) derived from the increase in receipts over those obtaining in 1909 are kept separate in the financial report, and of these receipts the Company retains only 3·75 per cent.

The contract was dated October 20, 1900, and provides among other matters for adequate Treasury supervision of the industrial and commercial control of the Monopoly. Prices are fixed by the Finance Minister, who also has full jurisdiction over the number, the varieties, and the quality of the products sold. The Company makes

over the tobacco revenues to the Treasury once a month.

App. I; Table 59

2. STATE REVENUE FROM TOBACCO

In 1913 the Monopoly provided to the State a revenue of £6,111,050, equivalent to 6*s*. 2·2*d*. per head of population and 2*s*. 11·9*d*. per lb. sold. The gross receipts (less retailers' discounts) were £8,520,450, corresponding to 4*s*. 2*d*. per lb. sold. The inclusive cost of manufacture and collection under the Monopoly concession was, therefore, 1*s*. 2·1*d*. per lb., which compares favourably with the cost of operation in France, Italy, and Austria, where the Monopolies are under direct State management.

App. I; Table 60

The figures of revenue and costs are, however, naturally subject to the reliance that can be placed on the accounts of expenditures returned by the Company, the chief fault in which is the absence of any information concerning wages, factory costs, or production in the several establishments. The Company merely states what it calculates to be the factory value of the cigars, cigarettes, &c., sold. The difference between the selling value and the factory value is the 'manufacturing profit', from which the general administration expenses are deducted in order to arrive at the net profit to be shared between the Company and the Treasury. The 'expenditure on purchases' includes commission and interest on advances made in foreign markets, and seems therefore to disguise what is really profit to the Company. In view of what has been said about other State monopolies in the matter of book-keeping, it is interesting to note that the Company includes in its expenditures depreciation of buildings and plant, maintenance

and repair, insurance of property and stock in hand, and cost of the services of officials charged with fiscal surveillance. It also appropriates 2 per cent of its profits as a bonus to the administrative and factory staffs. These items of expense are made necessary by the terms of the contract with the State.

3. MANUFACTURE, PURCHASE, AND SALE

The original buildings, plant, and machinery used by the Monopoly Company belong to the State; any improvements or additions require Government sanction, the Company receiving compensation when the contract is determined. There are eleven factories employing, in 1913, 16,847 women tobacco workers, 504 men, 204 female overseers, 359 mechanics and foremen, and 238 managers and office staff. Including factory employés, clerks, warehousemen, storekeepers, and members of the contraband vigilance service, the total number of persons engaged under the Company was 20,100. Only a few varieties of tobacco are made; they comprise twelve kinds of cigars, eighteen kinds of cigarettes, and twelve kinds of cut tobacco.

App. I; Table 65

App. V; 44, p. 14

No tobacco is grown in Spain. All the raw material comes from abroad, and the only information the Company gives concerning its purchases is that 34,654,250 lb. were imported from Havana, Java, Brazil, Rio Grande, Paraguay, Virginia, Kentucky and Yara; and 20,696,450 lb. from the Philippines. Spanish trade statistics show that 60,153,200 lb. were imported in 1913, valued at £1,003,650 or 4*d.* per lb., and judged by this figure the quality on the whole must be very inferior, although, such as it is, it has the approval

App. V; 44

App. I; Table 61

of the Government. From the same source it is ascertained that the prime cost of imported manufactured goods was 8*s.* 11·6*d.* per lb.; these goods are not bought outright by the Company but are imported under contract on account of the suppliers and paid for as sales are made.

App. I; Table 65

In 1913 the retailers of tobacco numbered 20,087. The normal discount on sales is only 3 per cent, but 5 per cent is allowed on some cigars, and in sparsely populated districts the retailers receive a monthly bonus varying from 5 to 20 pesetas (4*s.* to 16*s.*). The average annual profit per retail depot in 1913 was £16 16*s.*

App. V; 45, p. 59

Private parties can order their own requirements direct from abroad, but must do so through the Company. The Customs duties are 14*s.* 6*d.* per lb. on cigars and 9*s.* 1*d.* on cigarettes and cut tobacco, including the weight of the packages, in addition to which the Company charges a commission (on duty paid value) of 12 per cent in the case of cigars and 25 per cent in the case of cigarettes and cut tobacco.

App. I; Table 63

4. SELLING PRICES

The taxation imposed by the Monopoly in Spain is shown approximately by the difference between the selling value and the factory value, as reported in the Company's financial statement. The differences were: on imported goods 15*s.* 6*d.* per lb., superior Spanish goods 6*s.* 5*d.*, medium goods 2*s.* 10*d.*, and common goods 2*s.* 8*d.* per lb. The average profit (and therefore net revenue) per lb. after taking all expenditures into account, was 2*s.* 11·9*d.* In Spain, as elsewhere, prices have been repeatedly raised in order to obtain more revenue from the consumption of tobacco, and the

App. I; Table 59

App. I; Table 64

results of the most recent increases (in 1911 and 1912) are shown in the Appendix. As compared with prices in 1909, the price of superior brands was 1*s.* 2*d.* more per lb. in 1913, of medium brands 6*d.* per lb., of common brands 3*d.* per lb., and of all Spanish products 3*d.* per lb. The revenue, with diminished consumption, gained an annual increment of £616,400, equivalent to an increase of 11·2 per cent.

5. THE COMPANY'S PROFITS

The *Compañía Arrendataria de Tabacos* controls not only the Tobacco Monopoly but also the Stamp Monopoly. Its own profits from both concerns was £509,950 in 1913, distributed to shareholders the market value of whose holdings, judging by the yield of the 1 per mille tax, appears to have been £6,961,440. The net profit from tobacco alone, deducting taxes and bonus distribution, was £277,250 or £349,150 including interest. As the interest (£71,900) is calculated at 4 per cent, the value of the capital actually invested in the tobacco branch of the business appears to be £1,797,500.

App. V; 44

App. I; Table 66

CHAPTER X

Recent Monopoly Legislation in Sweden

App. V; 48–53.

1. THE DECISION OF PARLIAMENT

On September 9, 1914, the Swedish Parliament, by a majority of 95 to 42 in the Lower Chamber and 130 to 74 in the Upper Chamber, passed an Act prohibiting the manufacture of tobacco as an enterprise in which any person might engage, and establishing a Government Monopoly operated by a concessionaire company in partnership with the State. The Monopoly came into force on June 1, 1915.

The reasons for this legislation have been purely fiscal. The change has not been dictated by anything in the nature of Collectivist ambition, nor in the belief that the community could get better value or superior quality by the elimination of private manufacturers. The Government simply desired increased revenues from the consumption of tobacco, and has had the problem of ways and means under discussion since 1902. Some solution had to be found and one plan after another having been rejected, the Monopoly in its present form has finally emerged as the method considered to be a more fruitful source of revenue than any other scheme of taxation. The decision of Parliament in the later stages of the inquiry was moreover precipitated by the growing deficit in the national finances caused especially by the contributions of the Treasury to old age pensions.

The former cheapness of tobacco in Sweden due to comparatively light taxation, the large consumption of the article, and the existence of a discrimination in Customs duties in favour of raw material destined for the manufacture of Swedish products, have all facilitated the process of nationalization and made it possible to forecast additional revenues from the change. Official statistics published in connection with the taxation inquiries show that, during the years 1909 to 1912, the average annual tobacco revenue in Sweden was £337,780 and the annual consumption was estimated at 18,428,800 lb.[1] The average population in the same period was 5,541,000 so that consumption was as high as 3·32 lb. per head, and the revenue corresponded to only 1*s.* 2½*d.* per head and 4·4*d.* per lb. consumed. The tariff by which the revenue had been obtained was 6*d.* per lb. on raw materials, 2*s.* per lb. on cigars and cigarettes, and 7¼*d.* per lb. on other tobacco. These figures show great possibilities under any scheme of fresh taxation, and the Monopoly starts business under far more favourable auspices as a source of increased revenue, than if popular consumption had already been comparatively low and pre-existing taxes on tobacco (especially on raw tobacco) had been materially higher.

App. V ; 50a, pp. 88–91

2. THE NATURE OF THE MONOPOLY

Under the Monopoly Law the importation of raw material and the manufacture of tobacco products are an exclusive State privilege, and are conceded by the State to a tax-paying Monopoly Company formed for the special purpose. It

[1] Including 13,301,900 lb. Swedish snuff made from only 7,222,930 lb. weight of raw tobacco—See App. I ; Table 70.

is known as 'Aktiebolaget Svenska Tobaksmonopolet'. It has a partial, not a complete, monopoly; for although the Company's business also includes the importation of manufactured tobacco, it has no exclusive privilege in that respect and it has not been given any monopoly over the retail trade. Foreign products may continue to be imported by other parties, who must however be established in business as tobacconists; and the sale of tobacco to the public, as also the cultivation of tobacco in Sweden, remain free to any one to engage in as before, subject generally to the observance of certain regulations required in the interests of the revenue and for the protection of the Company. The details of the organization of the Monopoly, and of its relations with its customers and the State, are in the nature of the case somewhat intricate; and they can best be explained and understood in the light of earlier proposals, especially those of the Committee that put on paper a complete scheme of direct State Monopoly managed and operated by Government departments. We propose therefore first to review the various inquiries and reports that have helped clear the way for the new legislation; then to deal with the provisions of the Monopoly Bill; and to consider in their place the effects of sundry decisions made subsequent to the passing of the Act, the chief of which, since it altered the whole basis of the estimates, was the imposition of the higher Customs duties in September, 1914, as a temporary substitute for the Monopoly itself.

App. V; 50a, pp. 40–52

3. PREVIOUS SCHEMES OF TAXATION

The first committee to consider the subject of tobacco taxation was appointed in 1903, with

Mr. A. Hammarström, the chief of the Customs department, and four others as members. Their report declared in favour of a State Monopoly, but their terms of reference precluded any investigation into its probable yield, and without making recommendations they submitted a scheme of increased Customs duties and an Excise on Swedish tobacco estimated to produce an increased revenue of £138,890. The figure was considered to be much below the revenue properly due from tobacco, and the report was set aside, without arresting any particular attention.

In 1909, the then Finance Minister Schwartz, who had previously declared himself a convinced adherent of the State Monopoly idea, appointed a departmental Tobacco Taxation Committee, which consisted of Mr. A. Hammarström and three others: director, Th. Jeansson; member of the bank inspection, A. F. Lambert–Mueller; and engineer, P. Nordenfelt. The Committee were instructed to work out alternative proposals for taxation, estimate the probable yield, and draft bills for each scheme for submission to Parliament. They issued a three-volume report in 1911 containing, in addition to comprehensive Swedish statistics, much valuable information about systems of taxation in other countries, and recommending a Government monopoly of manufacture operated directly by the State.[1] The proposals did not

[1] Mr. Th. Jeansson in a special reservation dissented from the recommendations of his colleagues, and criticized the principles on which they based their proposals for expropriation and compensation. Messrs. Lambert–Meuller and Nordenfelt were members of subsequent committees that drew up the scheme of the Concession Monopoly now in operation; they and Mr. Hammarström have since been appointed as State nominees on the Board of Monopoly Company. —*cf. Tobakshandlaren*, Jan., 1915.

include the nationalization of the retail trade, nor of the importation of manufactured tobacco.

App. V; 48, Vol. I, pp. 33–44; 101–148

As a possible alternative to the State-managed manufacturing monopoly the Committee submitted proposals for increased Customs duties, Excise on home-grown tobacco, and stamp-duties on cigarettes and cigarette-tobacco whether home-made or imported. These changes were estimated to result in an increased annual revenue of £359,500, but were declared to involve such an increase in price as would reach the limit beyond which further taxation was likely to be unproductive. In this connexion, however, it should be noted that while it was proposed by this plan to increase the low Customs duty on raw material, the duties on manufactured goods, which were already higher than that on raw material, were to be raised in still greater ratio. Apart from the effect of the stamp-duties, the proposed Customs duties would undoubtedly have caused a considerable increase in the prices of imports, and the prices of Swedish-made goods (especially those sold in competition with imported goods) would have risen in sympathy; but in the latter case the increased prices paid by consumers would have produced no equivalent revenue, since in respect of Swedish-made goods the Customs could only collect the much lower duty levied on the raw material employed.

4. ESTIMATED REVENUES FROM PROPOSED STATE-MANAGED MONOPOLY

App. V; 48, Vol. I, pp. 80–7

The State Monopoly endorsed by the 1909-11 Committee[1] was estimated to produce an increased revenue of £834,280 without involving any advance

[1] As will be explained, this Committee's scheme was not proceeded with but proposals were adopted on the same general lines for a concession monopoly operated by a joint-stock company.

in the normal retail price of tobacco sold in small quantities at a time. Part of this increase (about £300,000) was expected to be made up by the future prohibition of so-called discounts to consumers, viz., the reduction in price allowed to smokers who bought goods from tobacconists in greater quantity at a time than the minimum usually sold. The rest of the new revenue was reckoned to be derived from economies in administration; ability to buy raw material at lower prices; absence of competition, advertising, travellers, &c.; and abolition of credit. The estimate of £834,280 (which was subject to deduction of interest on £1,277,780 as working capital; and the repayment, with interest, of £1,472,220 being the expenditure upon compensation) may be summarized as follows:—

	£	£
Revenue		
Calculated retail value of all tobacco sold in 1908, on the supposition that tobacconists gave no allowance in price for purchases in larger quantities		2,353,940
Expenditure		
Calculated net factory value of tobacco produced in Sweden for the home market	1,177,920	
Less manufacturers' profits (£126,370) and economies in administration (£178,440)	304,810	
	873,110	
Purchase of imported goods at *tax-paid* value in 1908 (tax being included in the retail value above)	273,220	
Selling costs (transport and retail discount) at 15 per cent of retail value ..	353,090	
Maintenance and depreciation of buildings, &c.	20,240	1,519,660
Additional revenue		834,280
Previous revenue, 1908		297,570
Total revenue		£1,131,850

The figures of revenue and expenditure as presented above were compiled from an exhaustive trade census made by the Swedish *Kommers Kollegium* and placed at the disposal of the Committee. Painstaking as the investigation was, the estimates cannot be accepted as free from the possible errors of guess-work (especially in respect of retail value) and they certainly reveal a most remarkable achievement in converting a manufacturers' profit of £126,370 into a State profit of £834,280 *without raising prices* except in so far as the reductions in price customarily allowed by tobacconists to smokers for purchases in larger quantities were to cease. Retailers themselves declare that the sum of money representing the value of such allowances has been much exaggerated.

App. V; 53, *passim*

5. BANDEROLE TAXES DECLARED NOT FEASIBLE

App. V; 49, p. 6

In 1913, the Finance Department, with the assistance of Messrs. Lambert-Meuller and Nordenfelt, endeavoured to work out a plan of stamp-duty or banderole taxation and saw a possibility of securing by such means an additional revenue of £666,670, but the plan presupposed an amalgamation of all the factories into a few large concerns; amalgamation, in fact, was considered to be essential for its success, for the difficulties and cost of collection and control would, in the opinion of the Department, have made the scheme impracticable. There was some hope of applying this method of taxation, since at about that time Swedish manufacturers had been moving towards concentration, and an association or combine of forty-six firms had formed what was called 'Aktiebolaget Förenade Svenska Tobaksfabriker'; but the movement did not go far

enough. Other sixty-five firms remained independent of the combine and of each other, so that the conditions for stamp-duty taxation, as imagined by the Finance Minister, were not established and the plan tentatively suggested had to be abandoned.

6. STATE MANAGEMENT NOT APPROVED

App. V; 50a, pp. 45–55

The concluding departmental Committee work, which has taken shape in the recent legislation, may be described by quoting an extract from the Report and Proposals made by the Finance Minister, A. Vennersten, and submitted as a Royal Message to Parliament on July 20, 1914:—

In these circumstances [the impracticability of stamp duty taxation and the failure of other schemes to produce adequate results], the question of introducing a State Monopoly in one form or another has been forced once more to the front. But the adoption of the 1909-11 Committee's proposals had not been considered practicable. . . .

It was the opinion of the 1909-11 Committee that the State, enjoying a manufacturing Monopoly operated by the State itself, should enter a field formerly left to private enterprise and become the seller of a widely distributed commodity.

The State, however, cannot employ the same freedom of activity as the individual business concern, and is not able to cater with the same responsiveness to the tastes and desires of consumers. It cannot be denied that if personal interest in the progress of a business is reduced there is also a lessening in creative impulse, initiative, and diligence. . . .

In addition, and in my opinion this is not the least important consideration, it is not desirable that the State should undertake a large branch of industry as sole employer and producer and possibly be obliged to play an unwilling part in social disputes, in which it should not be involved as one of the interested parties.

As it seemed equally impossible to adopt the proposal [for stamp-duty taxes] of the 1909-11 Committee, which was offered as an alternative to the State Monopoly owned and operated by the State itself, my predecessor in office entrusted the two authorities on the subject, Messrs. Lambert-Meuller and Nordenfelt, with the working out of a plan for solving the tobacco question by combining the principles which had already found expression in the two last proposals.

The details of a scheme of this nature had been almost completed at the time when I assumed office, and it is that which I am now submitting, although with certain alterations and amendments. The proposal is to pass Monopoly legislation to transfer the industry into the hands of the State, and so bring about the concentration necessary for the effective imposition of a system of taxes on the manufactured product, the scale of taxes to be imposed corresponding to the revenue it is desired to obtain from this source. With this object in view the State Monopoly shall be entrusted to and conducted by a joint-stock Company under State control, and the Company is to be responsible for the payment of the taxes which the State considers a proper contribution from tobacco manufacture. . . .

In framing the proposal which now lies before us, it has been possible to follow in the main the Monopoly Bill drafted by the 1909-11 Committee, which in view of the difference in the form of the Monopoly has been redrafted and modified in certain essentials. The work of recasting and revision has been carried out with the assistance of the already mentioned authorities [Lambert-Meuller and Nordenfelt], while all possible consideration has been given to the representations against the Committee's proposals that have reached us from various sides.

The Bill, thus prepared in the Finance Department, came before Parliament as 'His Royal Majesty's Gracious Proposal No. 254', dated July 20, 1914, and was remitted to a joint parliamentary Committee ('Special Committee No. 3') consisting of Mr. A. Hammarström and fourteen members of Parliament, some belonging to the Lower and the others belonging to the Upper Chamber. They reported by a majority of nine to five in favour of the proposal, recommending only a few alterations and additions, the chief of which were: increased compensation to manufacturers generally, and particularly to the associated manufacturers 'Aktiebolaget Förenade Svenska Tobaksfabriker'; compensation (not allowed for in the Bill) to be granted under certain conditions to dealers in Swedish and in imported leaf, cigars, and 'cigar-cigarettes'; and transitory arrangements to give retailers time to pay outstanding debts.

App. V; 49

7. EFFECTS OF THE TEMPORARY TARIFF

The Bill was passed into law as amended by the joint committee, but owing to difficulties of finance and other obstacles placed in the way, the date on which the Monopoly system was to start was postponed from November 1, 1914, to June 1, 1915. The anticipated revenue would therefore also have been postponed unless other temporary measures were to be adopted, and as the matter was urgent Parliament imposed on September 13, 1914, higher Custom duties on all kinds of tobacco, calculated to produce for the time being an amount equivalent to what would have been the probable yield from the Monopoly. This tariff, which of course has since been superseded by the scheme of taxes under the Monopoly, was as follows, the previous duties being stated in parallel column for the sake of comparison :

App. V; 50 j, p. 3; 53, Oct. 1914, p. 127; Apr. 1915, p. 30

Customs Tariff	Before Sept. 13, 1914	Sept. 13, 1914, to June 1, 1915
	Per lb.	Per lb.
Unmanufactured tobacco—		
Stalk	6*d.*	1*s.*
Leaf : U.S.A., and China..	6*d.*	1*s.*
Other sorts	6*d.*	1*s.* 6¼*d.*
Manufactured tobacco—		
Cigars	2*s.*	3*s.* 6½*d.*
Cigarettes	2*s.*	2*s.* 6½*d.*
Cut tobacco	7¼*d.*	1*s.* 9¼*d.*
Other sorts	7¼*d.*	1*s.* 3¼*d.*

The temporary tariff has had an important influence on subsequent events. The estimated income from the Monopoly, when the proposal was before Parliament, was figured on the basis the retail prices obtaining *before September 13, 1914.* and repeated references were made to the possibility of procuring from the Monopoly sufficient additional

revenues, *without raising these prices at any rate for all small purchases*, to meet the deficit in the Budget. On the strength of these declarations it was natural to assume that prices under the new system after June 1, 1915, would be generally on the same level as they were prior to September 13, 1914. But that is not what has happened. The immediate effect of the temporary tariff was a considerable increase in retail prices; and when the position was reviewed in March, 1915, by the Finance Minister before he made his final arrangements for the formal inception of the Monopoly, he decided to adopt the new higher prices as the standard, stating that the reversion to previous prices would cause much disturbance to the trade and would be an unwise sacrifice of convenient revenue, since all parties had by that time accustomed themselves to the higher rates. Thus the first outcome from the Monopoly has been to impose increased taxation on the consumer, a condition that was not contemplated (at any rate not as an immediate result) when public approval was given to the scheme. The alteration may be kept in mind when we are considering, in Section 18 of this Chapter, the estimates that accompanied the Monopoly Bill, or when in due time they can be compared with actual results.

App. V; £0 j

In respect of certain cheaper brands of cigarettes having a wide sale, the Company has not been satisfied merely with the higher prices made imperative by the September, 1914, tariff. For example: 'Helmi' plain cigarettes in packets of 10 are now sold at 20 öre; the price obtaining under the September, 1914, tariff was 15 öre; and before that the price was 10 öre. 'Melba' cigarettes, taking packets of 20 for comparison, are sold by the Company at 50 öre for plain, and 60 öre for

App. V; 51 a-e

cork-tipped; under the September 1914 tariff the price was 35 öre for either plain or cork-tipped; and previously the price was 25 öre. The Company has therefore actually *doubled* the price of two of the most popular cigarettes, and increased one brand (the cork-tipped) by 140 per cent, thus showing a striking disregard of the promises made when the Bill was brought before Parliament.

8. EXPROPRIATION AND COMPENSATION

App. V; 50a, pp. 98–102; 49, pp. 38-9

The total amount of money required for the transference of the industry to the Monopoly Company and for subsequent working capital has been estimated at £3,266,670. Of this, £2,350,000 represents the expenditure by the State on expropriation, compensation, and costs of financing the Company; the balance, £916,670, is additional working capital, and will be described later.[1] The details making up the sum of £2,350,000 may be grouped as follows:—

	£
1. Expropriation of plant and compensation for loss in value	111,110
2. Expropriation of raw material and unfinished goods	583,330
3. Compensation for loss in value of fixed property	94,440
4. Compensation to manufacturers for loss of business	831,580
5. Special indemnities to the Swedish United Tobacco Manufacturers[2]	105,170
6. Compensation to employés and labourers for loss of employment	250,280
7. Compensation to certain importers and dealers	12,950
8. Contingent sustentation fund	27,800
9. Fees to assessing commissions	13,900
10. Costs of flotation; interest on delayed payments, &c.	319,440
(42,300,000 kr.)	£2,350,000

[1] See *infra*, Section 14.

[2] Compensating them for past payments and liabilities incurred in connexion with the formation of the combine in 1912-13, and for expenses incident to the amalgamation at that time—See *infra*, Section 12.

Toward this expenditure the State receives ordinary shares in the Company to the value of £1,127,780 and the balance is repaid in cash, debenture stock being borrowed by the Company to the amount of £1,194,440 to help discharge the liability. These and other arrangements regarding shareholdings will be dealt with in Section 14 below.

App. V; 50d, §§ 6–12

The law obliges the State to purchase from the manufacturers all special machines and equipment, suitable exclusively or mainly for the production of tobacco, provided the machinery, &c., have been in continuous use since August 1, 1914; to purchase manufacturers' stocks of raw and partly-finished tobacco and other factory materials, provided such stocks are not in excess of the normal requirements of the factory concerned; to give compensation to the owners of plant and machinery which though used in the tobacco factories is suitable for other purposes than tobacco manufacture, and to the owners of buildings and other fixed property, for any reduction in value due to the discontinuance of tobacco manufacture, and to the necessity of having to find other uses for such capital. No compensation is allowed in the case of buildings that had been acquired by their owners later than June 30, 1913, unless the buildings had been used for tobacco manufacture prior to that date.

It will be noticed that the obligation to expropriate is limited to certain kinds of property. The State is not bound to buy factory buildings, nor plant and machinery that can be used in other industries, nor raw materials, &c., in the hands of others than manufacturers, *e.g.*, import merchants and agents; such property may, however, if it is wanted by the Monopoly Company, be pur-

chased from the owners by agreement. Nor is the State required to take over stocks of finished goods in the market, the law making special provision for the stamping and taxation of cigars, cigarettes, cut tobacco, &c., remaining unsold after the lapse of a given interval of time; a provision intended to prevent speculation, and liberate the market as early as possible for the products of the Monopoly Company.[1]

Compensation for loss of business is accorded as 'factory compensation'; and for loss of occupation or employment as 'personal compensation'.

9. FACTORY COMPENSATION

App. V; 50d, § 8

The maximum compensation given for loss of manufacturing business is twelve and one-half times the average annual profit[2] gained during the period December 31, 1906, to January 1, 1914, the best and worst years being omitted in calculating the average. The explanation of this maximum payment is that it was agreed that the fullest compensation should be equivalent to an annuity of twenty annual payments of the average profit; and at 5 per cent a twenty years' annuity has a present value of twelve and one-half times the annuity. Compensation is given only in the case of factories that have been worked continuously since January 1, 1909, and is payable according to the following sliding-scale of uninterrupted activity:—

[1] The stamps were at the rate of 1 öre (about 0·13*d.*) on all pre-Monopoly articles in stock on July 1, 1915; and on November 1, 5 kr. (5*s.* 6*d.*) on each package of not more than 100 cigars, and 1 kr. (1*s.* 1½*d.*) on each package containing other kinds of tobacco, bought by tobacconists before the Monopoly came into force.

[2] Profit is reckoned after deduction of rent and interest (at 5 per cent), salary of director or manager, depreciation, &c.

For the period of existence as a factory dating back from the inception of the Monopoly to January 1, 1904—a sum corresponding to five times the average annual profit; and in addition

For each complete year of existence prior to 1904 and going back to 1899—half the average profit;

For each complete year prior to 1899, and going back to 1889—one-fifth the average profit;

For each complete year prior to 1889—one-tenth the average profit;

provided that compensation shall in no case exceed twelve and a half times the average profit. This means that the factories entitled to the maximum payment must have been established before the year 1859, and that no factory established since January 1, 1909, is entitled to any compensation. As the first part of the sale determines compensation *for the period from January* 1, 1904, to the date of the introduction of the Monopoly, it is not clear from the formula how much payment is made to factories which, although they have been in operation since January 1, 1909, were established at some date later than January 1, 1904.

To meet the objection that it would be unfair to give the same compensation (because the average profit was the same) to a factory whose profits were falling as to another whose profits were rising, provision was made for deducting up to 10 per cent from the total compensation payable to a declining concern and adding up to 10 per cent to the total payable to a factory whose profits showed continuous increase. Factories whose accounts fail to show any average profit are entitled to compensation corresponding to one-tenth of the average annual net selling value of their products.

One of the conditions attached to claims for compensation is that manufacturers must hand

over their trade marks and their manufacturing recipes, so that the Monopoly Company can produce the same goods as were formerly being made.

10. PERSONAL COMPENSATION

Indemnities for loss of occupation or employment caused by the establishment of the Monopoly are dependent on and are fixed by certain considerations. The parties concerned must be of Swedish nationality; they must have been engaged in tobacco manufacture or trade on the date of the Monopoly coming into force, and continuously so for at least four calendar years immediately preceding its introduction; and they must have reached, on the date of the introduction of the Monopoly, the age of 18 years if professionally trained, or otherwise the age of 21 years. They forfeit the right to payment if they obtain or could obtain compensating and permanent employment with the Monopoly Company. App. V; 50d, §§ 9–10, 12

The amount of the indemnity, where it varies, is reckoned (except in case *e.* below) according to an involved sliding-scale, in which the 'earlier working year' determining the increment of payment allows both for the number of years engaged and for the age of the party concerned. The provision means that a young man will not receive the same compensation as an older man although both have been engaged for the same number of calendar years. Payments are as follows:—

a. To manufacturers,[1] managers, foremen, factory operatives, and home-workers: for the period of the four preceding years, once

[1] Comprising manufacturers whose business has been so small that they have not kept books, and owning-managers or directors who have reckoned in their manufacturing costs their own salary or fee before arriving at factory profits. For such profits the latter receive 'factory compensation'—see Section 9 above.

the average income of the *two* latest years; and for each earlier working year, two-fifths that average income, rising to a maximum of five times the average income;

b. To manufacturers' travellers or agents (*platsförsäljare*): for the period of the four preceding years one-half the average income (as above); and for each earlier working year, one-fifth the average income, rising to a maximum of four times the average income;

c. To persons who, although not professionally trained, have a permanent post in the factory, office, stockroom, or workshop occupied by a tobacco manufacturer for his tobacco manufacture: one-half the average income;

d. To importers of cigars and 'cigar-cigarettes' trading on their own account: one-tenth the average value (reckoned by purchase price including duty, freight and other importation costs) of the yearly sales of such directly-imported goods during the four preceding years; these sales must have represented on the average at least 33 per cent of the total sales of tobacco goods during the same period;

e. To dealers in leaf trading on their own account, subject to the average net income from the leaf business having represented at least 50 per cent of the average total earned income during the preceding four years: for that period, one-half the average net income from the leaf business; and for each previous calendar year of business, one-fifth that average net income, rising to a maximum of two and one-half times the net income.

In special circumstances the sum representing the indemnity payable to classes *a* to *c* may, increased by 10 per cent, be given in the form of a life-annuity.

In addition to the compensation above outlined, a contingent sustentation fund has been set aside for the relief of special cases of hardship.

App. V; 50d, § 3

11. THE ASSESSING COMMISSIONS

All matters relating to expropriation and compensation have been referred to specially appointed local assessing commissions and a central assessing commission, on which the interests of all parties are represented. Appeal is allowed from the local to the central commission, but the decision of the latter is final. Payments are due on the date

the Monopoly is introduced, but as the assessment will necessarily take time the amount due in each case is to bear interest at 5 per cent.

12. THE ASSOCIATED MANUFACTURERS

App. V; 50d, § 11; 50 a, pp. 158-9

The voluntary amalgamation of Swedish firms in 1912-13 already referred to, although it was not effected with that specific end in view, has incidentally facilitated the subsequent taking over of the whole industry as a Government Monopoly. The assistance the State has thus obtained is acknowledged by the granting of special terms of indemnity to the combine, and retrospective treatment is defended on the ground that in the absence of the amalgamation the State would have been obliged in any case to spend a sum of money equivalent to the costs of concentration incurred by the firms in 1912-13.

Compensation and expropriation in respect of buildings, plant, and machinery applies not only to property owned by the Association when the Monopoly was introduced but also to property taken over from the component firms in 1912-13; and further, if any such buildings, plant, and machinery have been sold (before August 1, 1914) at a loss, the State is to refund the loss so incurred. The average profits of the associated firms, and as a result their compensation for loss of business, was determined on a different basis from that which applied to the industry generally.

Moreover special compensation is accorded for the expenditure or liabilities incurred in the way of pensions to the personnel whose services were dispensed with owing to the combination of the factories. In fact, the whole transaction is an unusual recognition of a service to the State said to have been performed sometime previously;

had there been no monopoly proposals or had the proposals been defeated, it is doubtful if the Government would have been obliged to refund the moneys thus spent by the Combine in the absorption of independent concerns.

App. V; 50d, § 11; 50 l p. 6

By an agreement which provided for a lump payment (included in the total costs of compensation &c. above) of £47,250 for the costs of concentration incurred when the Combine was established the new Monopoly Company entered into immediate occupation of the Combine's factories under a lease not exceeding five years.

App. V; 50a p. 104

13. ADDITIONAL WORKING CAPITAL

The estimated value of capital required by the Company, in addition to the expenditure upon expropriation and compensation, is £916,670, made up as follows:—

	£
Land and buildings	456,330
Plant and machinery in addition to that expropriated	66,670
Stock in trade and cash	311,110
Sundry requirements	82,560
(16,500,000 kr.)	£916,670

Adding this to the costs of compensation, &c. (£2,350,000) already referred to, the total sum involved in financing the Monopoly is estimated at £3,266,670, which is roughly half a million pounds more than the authorities Lambert-Meuller and Nordenfelt considered in 1911 to be necessary for the establishment of the Monopoly then proposed.

The £3,266,670 is treated as the Monopoly Company's capital and is made up of preference shares, ordinary shares, and debentures.

14. THE MONOPOLY COMPANY AND THE STATE

App. V; 50a, p. 105

While the Monopoly was under consideration the Government had made arrangements in July, 1914, with four Swedish banks for the financing the new Company; the total capital thus required being estimated at £3,055,560 (55,000,000 kr.) made up of £2,138,890 (38,500,000 kr.) costs of compensation, &c., and £916,670 (17,000,000 kr.) additional working capital.

App. V; 50a, p. 28

The State undertook to accept £1,000,000 (18,000,000 kr.) in ordinary shares as sole ordinary shareholder, and in addition any excess over £2,222,220 (40,000,000 kr.) which it might be necessary to pay out in expropriation and compensation. The banks on their part undertook to float the preference stock which was fixed at £944,450 (17,000,000 kr.) bearing interest at 6 per cent cumulative, with a State guarantee of $4\frac{1}{2}$ per cent; and they were also to lend the Company £1,111,110 (20,000,000 kr.) at 5 per cent.

The disturbance to the money market brought about by the European crisis in August 1914, and the alterations made by Parliament in the provisions for compensation &c. caused the banks to withdraw from this agreement, and the Government had to postpone the introduction of the Monopoly. Parliament had increased the estimated costs of compensation &c. by £211,110 (3,800,000 kr.) to £2,350,000 and this meant that the State for its part, in case the estimate should prove correct, had to undertake to increase its holding in ordinary shares by £127,780, *viz.*, by the excess of £2,350,000 over the sum of £2,222,220 above stated. The difference between £211,110 and £127,780 not taken in ordinary shares will in the

App. V; 49, pp. 38-9

circumstances apparently require to be made up by further borrowing or debentures. The preference shares have not been altered in amount, but the later negotiations with the banks (since increased to six) resulted in their agreeing to float only £277,780 of these shares, the State to take the rest, £666,670, temporarily for a period of four years.

App. V; 53, Jan. 1915, p. 5

The total capital will therefore be secured as follows :—

	£
Ordinary shares, owned by the State.. ..	1,127,780
Preference shares, owned by the State ..	666,670
Preference shares, subscribed by the public ..	277,780
Debentures, borrowed by the Company ..	1,194,440
(58,800,000 kr.)	£3,266,670

The amount of ordinary stock to be owned by the State is not fixed at the precise sum above stated. That is the estimate, as near as possible, of what may be required in the way of ordinary capital. The State definitely agrees, however, in its arrangement with the banks, to take in ordinary shares (as part payment of its cash outlay upon expropriation, compensation and establishment expenses) £1,000,000 *plus* whatever amount is incured in that expenditure over £2,222,220 ; the remaining part of the costs of compensation, &c., £1,222,220, is to be refunded by the Company in cash.

The preference shares offered to the public may be held only by persons of Swedish nationality.

App. V; 49, pp. 86–97

The contract between the State and the Company leases the Monopoly to the latter until the end of the year 1924 and for ten years longer unless six months' notice of termination has been given by the State ; it cannot be revoked by the Company. Clauses in the contract provide for the

due payment of taxes; auditing of accounts; general administration; representation of the State on the Board of Directors; refund of all cash outlay by the Government which exceeds the value of the shares held by the State; conversion and extinction of the debentures; and other necessary arrangements.

The distribution of profit is such that preference shares take 6 per cent cumulative, ordinary shares then take up to 6 per cent, and what remains is divided in the ratio of 1/8 per cent to preference and 7/8 per cent to ordinary shares until the preference dividend is 7 per cent. Any further profit goes in the ratio of 1/10 per cent to preference and 9/10 per cent to ordinary shares.

15. GENERAL MANAGEMENT OF THE COMPANY

App. V; 49; pp. 91–7

The affairs of the Company are administered by a Board of Directors of six or eight members with a deputy for each member. Half of the members and their deputies are appointed by the Crown, one of these members being the Director on active duty; their fees are fixed by the Crown and none may hold shares in the Company. At the meetings of the Board, one of the directors appointed by the Crown must preside.

The remaining members of the Board and their deputies are elected by the preference shareholders and a guarantee is given that, while the State itself holds preference shares, the interests of private shareholders holding the balance of such shares will be duly safeguarded. One of the directors representing preference shareholders will be Managing Director of the Company, and as such will be elected to the position by the joint Board.

App. V; 53, Jan. 1915, p. 4

While preference shareholders have the sole right of electing the directors to represent them, the fees of these directors, and other administrative matters, are subject to the decision of the shareholders as a body at their annual meeting; and this gives the State as chief shareholder (with voting powers corresponding to the number of shares held) a controlling influence in the general affairs of the Company. All directors hold office for a term of three years, except that at the commencement those chosen by preference shareholders shall sit for one year only.

For the inspection of reports and accounts there are four auditors and their deputies, two being nominated by the State and the other two elected by the preference shareholders. The Company must close its accounts on December 31, submit them to audit on or before April 1, and render its administrative and financial report to its general meeting of shareholders to be held during the month of May each year.

App. V; 50a, p. 68

16. PRICE FIXING

Retail prices of Monopoly Goods are fixed at the discretion of the Company. There is no parliamentary control over them save in so far as the State is represented by Directors on the Board and can exercise its greater voting power at the annual meeting. Importers fix their own prices for their goods, but both Monopoly and imported articles have the prices stamped upon them, and these cannot be varied by the retailers. The Company decides which of its products may be sold in the loose state or in small quantities; for the rest, retailers are forbidden to break packages and must sell the goods as they receive them.

17. THE COMPANY AS TAXPAYER

App. V; 50c, §§ 17–23; 50a, p. 58

The Company is the sole importer of raw tobacco into Sweden. On that and on any tobacco products it may introduce it is required to pay Customs duties on a scale specially set up in connection with the Monopoly. It also pays inland revenue taxes equivalent to a fixed percentage of the retail price of all goods sold, and must collect and remit to the Treasury the inland revenue taxes imposed on those who import foreign goods as independent dealers. For all these payments it must account once a month to the Treasury, and it is thus established (except for the Customs duties on goods imported by independent dealers) as the single medium through which the State receives its tobacco revenues. At the end of the financial year the Company also accounts to the State for any share of the dividend that may be due to the latter as shareholder.

The new taxation is as follows:— App. V; 50f

Customs Duties

	Per lb.
Unmanufactured tobacco	6*d.*
Cigars and cigarettes	3*s.* 0½*d.*
Other manufactured tobacco	11*d.*

Inland Revenue Taxes App. V; 50c, § 18; 50r

	Per cent of retail price	
	June 1 to Dec. 31, 1915	After Jan. 1, 1916
On manufactured goods, whether Swedish or imported:		
Cigars and 'cigar-cigarettes'	15	15
Cigarettes	20	30
Cut tobacco	10	20
Plug, roll and twist	10	20
Snuff	15	25

An amending Act was passed on June 11,1915 providing for the imposition of the increased inland revenue taxes as from January 1, 1916. The new scale of the inland revenue taxes gives the Treasury an immediate benefit, greater than it would enjoy as a shareholder in the Company, from the higher retail prices adopted as already explained when the Monopoly came into force. The original inland revenue taxes, agreed upon when the Monopoly Law was passed, were determined in relation to the lower prices which ruled before September 1914; and accordingly an adjustment was necessary if the Company were not to continue paying the originally agreed-upon taxes while at the same time selling at prices materially higher than those contemplated when its contract was being settled. Apart from Customs duties, future increased revenues are obtainable either from higher retail prices or from higher inland revenue taxes or from both, but any alteration will probably always have regard to an adjustment between the direct interests of the Treasury and the obligations of the State to its joint partners in the Company. The matter is most involved; and we imagine it will be difficult for the taxpayer to see where he stands amid the complicated expedients the Government has adopted for making him pay an increased contribution on the tobacco he smokes.

18. THE ANTICIPATED REVENUE

App. I; Tables 71, 72

The new inland revenue taxes are estimated to yield, on the basis of existing retail prices, £533,250 in 1916 and £771,200 in 1917. The Customs duties are likely to produce the same sum as the average for 1909-12, the tariff on raw material being at the old rate of 6*d.* per lb., and the higher

tariff on manufactured tobacco being offset by a corresponding decline in importation. The State's share of the Company's dividend is expected to be £5,560 in 1916 and £60,000 in 1917. The total income from tobacco taxation will therefore be as follows:

	1916	1917
	£	£
Inland revenue taxes	533,250	771,200
Customs duties	337,780	337,780
Share of dividend	5,560	60,000
	£876,590	£1,168,980

Reckoning the population at 5,760,000 in 1916 and 5,801,000 in 1917, the average income works out at 3*s.* 1*d.* and 4*s.* per head respectively. The official estimates fail to show the quantity of goods to be consumed in 1916; but for 1917 the forecast is 16,830,000 lb., and if the above figure of revenue is realised it will be equivalent to 1*s.* 4½*d.* per lb. sold.

The 1916 and 1917 estimates are based upon the calculations set forth in the Crown Proposal No. 254 of July 20, 1914, which in turn are reputed to be the results of a trade census of consumption, retail values, etc. in the years 1909 to 1912. They are reproduced in the Appendix, where it will be seen that the authorities originally anticipated (in addition to £337,780, the unchanged yield from Customs) receipts from the new inland revenue taxes equal to £337,890 in the first full year of operation and thereafter £400,000 per annum. That result was to be achieved *without raising the previously ruling retail prices* except that the 'consumers' discounts' or reductions in price allowed by tobacconists for goods bought from them in greater than minimum

App. I; Tables 67, 68

quantities were to cease; and that imported goods would be dearer owing to the heavier tariff to be levied on them. The calculations meant in effect that, besides providing the means to pay the new inland revenue taxes, the same or slightly altered retail prices would still leave enough surplus to guarantee the Company's profits and meet the interest charges on compensation and expropriation.

It will be interesting to compare these various estimates with actual results, and particularly to examine under that test the soundness of the predictions which offered such inducements to nationalize the industry. Meanwhile the consumer has been obliged to pay much more for his tobacco than the authorities considered would be necessary to ensure financial success; and if the balance sheet turns out satisfactory the effect of the increased prices must be taken into consideration before any opinion can be formed that the scheme was well-devised in the beginning.[1]

App. V; 50c, § 22

19. INDEPENDENT IMPORT TRADE

The law permits tobacco dealers (but not private individuals) to import and sell tobacco products. On such goods, in addition to the Customs duty, a licence duty is levied which includes not only the inland revenue taxes but also an extra payment to the Company corresponding to what would require to be included as cost and profit in the price of such goods[2] if they were sold by the Company itself. The Company is allowed to decide the amount of the inclusive licence

[1] See Postscript, p. 211.

[2] Exclusive of cost of labour and raw material on the Company's products, and exclusive of purchase price, freight, and duty on imported manufactures.

duty, subject to appeal by the importer to the Crown if he considers the charge excessive.

The provision as to the extra payment is intended to protect the Company against competition; in its absence there would have been a danger of a profitable trade being conducted at the expense of the State, and the capital outlay on the formation of the Company would have been spent without return. App. V; 50a, p. 75

It was recognised, however, that private importation was likely to be seriously interfered with by this provision, and before the Monopoly Act was passed Parliament conceded a measure of compensation to importers of cigars and 'cigar-cigarettes' on condition that their business in such goods had constituted, during the four years prior to the inception of the Monopoly, at least 33 per cent in value of their total turnover. App. V; 50d, § 10

The import trade in other goods except cigarettes was regarded as too insignificant to be entitled to compensation; and nothing was allowed to importers of cigarettes on the ground that the trade consisted in well-known brands firmly established in the Swedish market and therefore likely to be entirely unaffected by the existence of the Monopoly. It is difficult to reconcile the reason given for this refusal with the appropriation of trade-marks by the Monopoly in the case of goods made in Sweden; for such goods may also have been imported from abroad, and firms formerly producing certain brands in local factories, while at the same time supplementing supplies by importation, will have to cease trading in these brands altogether, without being entitled to any compensation. App. V; 49, p. 20

The extra payment levied on imported goods has been fixed by the Company at 13 per cent of

retail prices, and the scale of the inclusive licence duties is therefore as follows:—

Licence Duty on Imports	Per cent of retail price June 1, to Dec. 31, 1915	After Jan. 1, 1916
Cigars and 'cigar-cigarettes' ..	28	28
Cigarettes	33	43
Cut tobacco	23	33
Plug, roll and twist..	23	33
Snuff	28	38

The increase after January 1, 1916, is of course due to the corresponding increase in the inland revenue taxes then imposed.

20. WHOLESALERS AND RETAILERS

The provision in the Monopoly Act that the sale of tobacco to the public should remain a 'free' business, as heretofore, enabled the State to save the cost of, or at any rate postpone, compensation to both the wholesale and the retail trade. The Monopoly Company itself was not debarred from selling to the public, and there was no stipulation binding it to grant any specific rate of discount to wholesalers and retailers. Its relations with the trade were left to be settled by negotiation, an arrangement scarcely satisfactory to the tobacconists since they would have to treat with a supplier able not only to negotiate but also to dictate terms. Although therefore literal freedom of sale was secured by law to sellers of tobacco, there was no assurance nor even hope that business would or could be conducted in the future with the same margin of profit as hitherto. The reduction of discounts might in fact make the legislative freedom worthless and drive out of business many shop-

keepers who had been accustomed to a liberal rate of discount and required that to make tobacco-selling pay.

As for the wholesalers, if they were not to continue receiving special wholesale terms, they too would be obliged to cease business. To such contentions the usual answer is that there is normally an excessive number of retailers, that the wholesale trade imposes an unnecessary cost on distribution, and that concentration leads to greater economies in the general interests of the community. This answer may be argued on its own merits, but it does not apply to the case in point. If the Monopoly was to have the effect of taking away the livelihood of tobacco dealers, while apparently permitting them to handle tobacco, the State seemed bound to grant them compensation on the same footing as it had granted compensation to manufacturers, importers, tobacco-workers, &c., whose business or employment was taken from them by the same legislation.

21. DISCOUNTS TO RETAILERS

The Company announced its terms to retailers at the end of April, and with the announcement the trade at last knew, after having waited in much suspense since September, how it would be situated. The main features of the relations now set up between the Company and the tobacconists are as follows: — App. V; 53, May 1915, p. 33

1. Every Tobacco Dealer that desires to be regarded as a 'Tobacco Specialist'[1] shall make application to this effect on a special form obtainable from the Tobacco

[1] Meaning shopkeepers whose business consists wholly or mainly in the sale of tobacco, *i.e.*, tobacconists proper, as distinct from shopkeepers who stock a general assortment of goods, including tobacco.

Monopoly. The application must be approved by the Tobacco Monopoly.

2. Tobacco Specialists, and other Tobacco Dealers, will be allowed a discount of 16 per cent of retail prices and Tobacco Specialists will be given in addition an extra discount of 8 per cent of retail prices.
3. The Tobacco Specialist's privilege of securing the extra 8 per cent discount is subject to the condition that he does not sell tobacco in bulk but only in retail quantities at the retail prices marked on the goods. Breach of this regulation will lead to deprivation of the extra discount.
4. The extra discount will be granted only to those Tobacco Dealers who were established in business before January 1, 1915, and whose sales of tobacco products and of goods pertaining to the tobacco trade (*viz.*, pipes, snuff boxes, cigar cases, &c.) make up at least 75 per cent of the total turnover of all goods sold in their shops.
5. All other Tobacco Dealers, including Tobacco Specialists established since January 1, 1915, will obtain the discount of 16 per cent of retail prices.
6. A Tobacco Specialist who opens a branch after January 1, 1915, can make use of the extra 8 per cent discount only in respect of his headquarters.
7. A Tobacco Specialist who has taken over the business of another party after January 1, 1915, will obtain only the 16 per cent discount. In cases deserving special consideration the Company may allow exceptions to this regulation.
8. No Tobacco Specialist may remove the location of his business unless for such cause as the Tobacco Monopoly may find reasonable before giving permission.

The fears expressed that the establishment of the Monopoly would cause much disturbance in the selling trade and would entail many sacrifices seem to be justified in the light of these new and arbitrary terms. Formerly the rate of discount enjoyed by retailers had been much higher and had varied from 25 per cent to 30 per cent or more. The effect of the lower retail discount on the one hand and of the conditional extra discount on the

App. V; 53 *passim*

other hand is likely to lead to the concentration of business in fewer hands. Many smaller shopkeepers able to do business on the basis of 25 per cent will not find 16 per cent sufficiently profitable. The stipulation that no newly established 'Tobacco Specialists' can get more than 16 per cent while older businesses will get 24 per cent will give the latter a monopoly for which no just reason can be assigned. No doubt, however, the larger and the older businesses may find these terms agreeable since what they lose by receiving a lower rate of discount will probably be made up by a greater turnover at the expense of others who can no longer compete with them.[1]

22. DISCOUNTS TO WHOLESALERS

App. V; 51c

Wholesalers were granted special terms which enabled them (with a curious exception respecting the sale of one of the most popular brands of snuff) to act as intermediaries between the Monopoly and the tobacconists; but it is only a temporary arrangement pending the expropriation of the wholesale business, a Committee having been appointed to draw up a scheme of compensation. The discounts allowed were from 3 to 4 per cent of retail price, according to the categories in which the wholesalers were placed.

App. V; 53, Jan. 1916, p. 8.

23. OTHER PROVISIONS AND SOME INDUSTRIAL EFFECTS

App. V; 50c; 53 *passim*, and Swedish press

Other details of the monopoly legislation need only be mentioned without being given a fuller

[1] *Afton-Tidningen* of August 8, 1915, states that in Stockholm alone fifty-two shops have been obliged to give up selling tobacco, and a similar number were expected to cease business by October 1, the reason being that the smaller cigar-dealers could not exist on the low discount allowed by the Monopoly Company.

description: the prohibition against the private importation of tobacco-working machinery, cigarette paper, &c.; the control over local tobacco-growing; the general administration of the Act; and the various fines and penalties imposable for contravention of the law. There is also a provision to enable factories to complete contracts for leaf tobacco on order when the Monopoly was introduced, such material being regarded as if it had belonged (but after payment of the new Customs duty) to manufacturers' stocks existing on June 1, 1915. On or before July 1, 1915, manufacturers were bound to affix the 1 öre control stamp already referred to on page 187 above; and after August 1, no tobaccos could be sold or otherwise disposed of by manufacturers unless they had stamped the registered retail price on each article or package, and had paid to the Monopoly Company in respect of such goods the licence duty as levied on imports, *i. e.*, the inland revenue tax *plus* the extra payment equal to 13 per cent of retail price.

It is clear that the Company and its prerogatives are well protected by the law. Even in the import trade, though it was declared a 'free' business, there is little chance of profitable competition on the part of independent dealers, in face of the discriminating Customs duties levied on manufactured goods, and the additional licence duty which includes the 13 per cent extra payment to the Company.

The provision for imposing the 1 kr. and 5 kr. stamp duties on pre-Monopoly goods remaining in tobacconists' and wholesalers' premises on November 1, 1915, caused an almost universal clearance before that date. Dealers were given the alternative of paying in respect of old stocks the licence

duty as levied on imports, but that did not remove the inducement to sell off, and the alternative appears not to have been taken advantage of to any great extent.

According to frequent articles in the Swedish press on the subject, there has been considerable distress among tobacco workers. During the interval between the passing of the Act and its adoption on June 1, 1915, the shadow of the coming Monopoly caused uncertainty and insecurity, since no one could be sure in many cases whether a factory would continue or would be closed down. Hundreds of men and women have been out of work for long periods both before and after the inception of the Monopoly, and have had to wait for the decisions of the assessing commissions to see how they would be placed with regard to compensation; relief offices and instruction courses were organized to assist them in finding other employment. The official story of the unemployment, and of the steps taken by public and private charity to meet it, is told in the Crown Proposals No. 37 of February 12, 1915, and No. 151 of April 16, 1915. The latter is a project to alter the Act so as to grant compensation to those members of classes *a*. *b*. and *c*. (Section 10 of this Chapter) who may have involuntarily lost employment after September 9, 1914.

Since June 1, 1915, serious differences have arisen also on the question of wages, hours of labour, and other factory conditions. The tobacco workers protested against the terms originally offered by the Company, which they claimed meant lower wages and longer hours than they had worked for under the private manufacturer. Ultimately, in November, 1915, the Company gave way and conceded the conditions demanded by the workers trade union.

The Company was not prepared for the natural effects of the heavy November stamp duties on shop goods, and were unable to execute the sudden large orders which came in; for there was still the normal demand for tobacco from the great mass of smokers, and retailers' stocks were quite depleted; it was only people with money to spare who had bought largely in order to escape, as long as possible, the higher prices of the Monopoly Company's products. Idle factories were hurriedly equipped with full staffs, and it was necessary to re-engage workers, many of whom had received compensation from the State for loss of employment. It may be that this is only a temporary activity to make good the unexpected shortage in the retail market, and there may therefore be further anxieties among workers before demand and supply are accurately adjusted. Meantime, however, the engagement of compensated employés has raised a delicate problem as to the payment of compensation and its relation to the wages that should be offered in the circumstances; the matter has been referred to the assessing commissions for consideration.

24. FUTURE PROSPECTS AND SUMMARY

It must be left to the future to determine whether the financial operations necessary to establish the Monopoly, the expenditure they have involved, and the complete revolution in the tobacco industry, have been worth while. Much was made of the possibility of getting, by means of the Monopoly, a considerable increase in revenue on the basis of current retail prices; but the Monopoly has not after all left prices as they were, and it may be difficult exactly to ascertain from the published results to what extent the original estimates of the

Tobacco Taxation Committee would have proved accurate if the old prices had been maintained.

The outstanding features of the events in Sweden which have accompanied the nationalization of the tobacco industry may be summarized as follows : —

1. The Government, anxious to cover a deficit and increase its resources, has found it necessary not only to resort to the practice of farming the taxes by creating a monopoly corporation interested in the public revenues, but also to lock up a sum of £1,794,450, which safely invested in any direction would have earned the market rate of interest.

2. Objectionable as it may be to delegate in return for private profit the public duty of collecting the taxes, the Government did so because it recognized the defects of State management, and was determined to secure the admittedly superior economic and industrial efficiency associated with private management and individual initiative ;

3. The financial transactions in which the State has been implicated can only be justified by their success ; whatever the profit may be, the large receipts due to subsequent increases in selling prices (not provided for in the original estimates) should be discounted in the balance sheet, and treated as an additional burden on the consumer which might equally as well have been levied by the ordinary methods of taxation formerly in operation ;

4. The attitude of the banks to the scheme was indicated by the fact that they would not undertake to finance more than about one-third of the preference stock, although it carried a State guarantee

of 4½ per cent, and the result is that the investing public has subscribed only £277,780 to the capital of the Company.

5. The incidence of taxation on the consumers is governed in large measure by the retail prices charged: first, in virtue of the relation between prices and the yield of the *ad valorem* inland revenue taxes; and secondly, in virtue of the influence of prices upon the monopoly profits of the Company, in which the State participates as a shareholder. The power, therefore, of the Board of Management to fix prices as it sees fit (which can be controlled only in a general way by Parliament, and even so indirectly, through the State officials nominated as Directors) is equivalent to an arbitrary power to impose taxation, and its exercise obliges the taxpayer to surrender to a bureaucracy one of the most essential rights associated with democratic institutions;

6. The Government's intention to preserve independent freedom to import and to sell to the public has broken down under the conditions formulated by the Company; importation can only take place if importers can succeed in selling at a price which is materially enhanced by the payment of an extra tribute to the Company, charged for its protection; the lower discounts to retailers than they formerly enjoyed, and the discrimination against smaller and newly-established shops, are likely to concentrate the sale to the public in fewer hands; there are already indications that special privileges are being created in the retail trade, repeating in Sweden the state of affairs that has been found to flourish in France and Italy as a necessary consequence of monopoly restrictions upon activities that should be equally free to all citizens.

25. POSTSCRIPT

The report of the Monopoly Company for the seven months, June—December, 1915, reaches us as this goes to press.[1] The yield of the inland revenue taxes was £179,290, and the July and November stamp duties are stated to have produced about £27,780. The net trading profit was £138,572, of which preference shares received 6 per cent (£56,667); ordinary shares 6 per cent (£60,000) the State having subscribed £1,000,000 to date; £14,444 were placed to reserve and £7,461 carried over. The retail value of goods imported by dealers during the seven months, and of goods in stock on November 1, on which tobacconists preferred to pay licence duties instead of stamp duties was £262,970; the trading profit therefore apparently includes £34,180 as the 13 per cent extra payment due to the Company—an item which was not anticipated in the original estimates of the Tobacco Taxation Committee. App. V; 51 f

As the report covers a period of establishment and transition it is scarcely a conclusive record of results. The necessary expenditure on expropriation and compensation, though roughly allowed for in the accounts, had been incurred only in part. The payments definitely settled were those in respect of loss of employment ('personal compensation') and had been made to 1,500 factory workers, 100 home workers, and 300 members of staffs; sundry support had been granted in 500 cases. It appears from the report that the Company were treating the 8 per cent extra discount to 'tobacco specialists' as an arrangement that had been granted only until further notice.

[1] May, 1916.

App. I; Table 73

An analysis of average retail prices before and after the introduction of the Monopoly is given in the Appendix, and it confirms the observations made in previous sections of this chapter. Cigars and 'cigar-cigarettes' have been raised from 9*s.* 2*d.* to 13*s.* 1*d.* per lb.; cigarettes from 10*s.* 6*d.* to 14*s.* 1*d.*; cut tobacco from 2*s.* 0*d.* to 4*s.* 0*d.*; plug, etc., from 2*s.* to 4*s.* 1*d.*; and snuff from 9·3*d.* to 1*s.* 6·6*d.*

APPENDIX I

STATISTICAL TABLES

Foreign Equivalents for English Money and Measures.

TABLE 1 — Comparative Statement of Tobacco Revenues and Tobacco Trade in Various Countries.

TABLE 2 — Growth of Tobacco Revenues in Various Countries from 1903 to 1914.

TABLES 3–22 — French State Tobacco Monopoly.

TABLES 23–39 — Italian State Tobacco Monopoly.

TABLES 40–51 — Austrian State Tobacco Monopoly.

TABLES 52–58 — Japanese State Tobacco Monopoly.

TABLES 59–66 — Spanish Concession Tobacco Monopoly

TABLES 67–73 — Swedish Concession Tobacco Monopoly

FOREIGN EQUIVALENTS USED FOR CONVERSION INTO ENGLISH MONEY AND MEASURES

(£=pound sterling; *s.*=shilling; *d.*=penny;
lb.=pound avoirdupois; kg.=kilogramme;
£1=20 shillings; 1 shilling=12 pence)

	Foreign Equivalents of English Measures			
	£1	1 lb.	1*d.* per lb.	1 Acre
France, Switzerland .. (1 Franc=100 cents=9·6*d.*)	25 Francs	0·455 kg.	22·9 cents per kg.	0·405 hectare
Italy .. .. (1 Lira=100 centesimi=9·6*d.*)	25 Lire	0·455 kg.	22·9 cents. per kg.	0·405 hectare
Austria .. .. (1 Krone=100 heller=10*d.*)	24 Kronen	0·455 kg.	22 heller per kg.	0·405 hectare
United States and Canada .. (1 Dollar=100 cents=4*s.* 1·28*d.*)	4·87 Dls.	1 lb.	2·03 cents per lb.	1 acre
Spain .. .. (1 Peseta=100 centesimos=9·6*d.*)	25 Pesetas	0·455 kg.	22·9 cents. per kg.	0·405 hectare
Germany .. .. (1 Mark=100 pfennige=11·75*d.*)	20·43 Mk.	0·455 kg.	18·7 pf. per kg.	0·405 hectare
Sweden .. .. (1 Krona=100 öre=1*s.* 1·33*d.*)	18 Kronor	0·455 kg.	16·5 öre per kg.	0·405 hectare
Japan .. .. (1 Yen=100 sen=2*s.* 0·58*d.*) (1 Kin=160 momme)	9·764 Yen	0·756 kin 0·121 kwan	5·38 sen per kin	0·408 chô

]

	Year	ew land 012	Australia 1912	Canada 1912–13	United States 1912–13	Germany 1912–13	
	R						
1	Populat	9,400(a)	4,651,050	7,612,500	96,220,000	66,809,000	1
2	Net Re	3,510(b)	£1,993,430(b)	£2,241,000(b)	£20,846,240(b)	£8,670,150(b)	2
3	Consum	9,100	13,864,950(c)	29,009,200	550,061,000(c)	251,878,900	3
4	Do.	lb.	3·00 lb.	3·81 lb.	5·71 lb.	3·76 lb.	4
5	Revenu consun	1·5*d*	2*s* 10·5*d*	1*s* 6·6*d*	9·1*d*	8·2*d*	5
6	Revenu	5*d*	*8s 7d*	*5s 10·5d*	*4s 4·0d*	*2s 7·1d*	6
	PRO						
7	Home-g	—	1,202,200(e)	17,632,342(e)	953,734,000	85,483,200	7
8	Price	—	7·5*d*(e)	6·77*d*(e)	†	3·06*d*	8
9	Import	—	——	——	53,647,800(f)	——	9
10	Leaf	7,325	12,389,450	22,153,600	——	174,731,750	10
11	Manu	0,000	1,987,350	1,563,600	——	10,446,300	11
12	Price	—	1*s* 2·3*d*	1*s* 0·7*d*	——	9·14*d*	12
13	Export						13
14	Manu	—	703,600	45,590	12,287,250	1,573,400	14
15	Other	—	——	860,670	418,796,950	1,161,700	15
16	Price	—	——	——	5·85*d*	——	16
17	Total i	2,900	18,202,400	25,793,200	70,291,200	267,000,200(h)	17
18	Total e	9,700	2,531,200	964,450	433,862,100	70,610,100(h)	18
19	Re-exp	—	1,827,600	58,190	2,777,900	68,304,600(h)	19
	M						
20	Averag	—	1*s* 1·7*d*	10·10*d*	†	7·15*d*	20
21	Averag	†	†	†	†	†	21
22	Numbe	9	35(k)	173	15,823	6,514(k)	22
23	Emplo	—	3,484	8,763	166,810	169,640(l)	23
24	Wages	—	£358,080	£682,750	£14,261,800	†	24
25	Ratio c	—	†	†	†	205(n)	25
26	Averag	—	39*s* 6*d*(o)	30*s*(o)	32*s* 10*d*(o)	†	26
27	Registe	†	†	†	†	†	27
28	Averag	†	†	†	†	†	28

REFERENCES 23– Cd. Offi Abs Vol

• The Mono

† Particular

(a) POPULAT in 39, See

(b) NET R ded to les Cu bas ex col cer ex ex tol ba

'Other tobacco' includes 3,229,250 lb. residue; *United Kingdom:* The 10,109,700 lb. includes strips, stalks and waste.

(h) TOTAL IMPORTS AND EXPORTS, AND RE-EXPORTS.—*Germany:* the figures are for the year 1911.

(f) VALUE OF LEAF USED.—*France, Italy,* and *Austria:* Value of leaf at the factories including costs of preparation; *Other Countries:* Prime cost.

(k) NUMBER OF FACTORIES.—*Australia:* The bulk of these are small cigar factories; *Germany:* The industry is largely distributed among smaller concerns, 4,266 factories employ not more than 19 workers; 2,171 employ 20 to 199 workers; and 77 employ 200 workers or more.

(l) EMPLOYÉS ON WAGES.—*France, Austria,* and *Italy:* Including foremen, etc., in the workshops; *United Kingdom:* Census, 1911; *Germany:* Compulsorily insured workers. The figures exclude the voluntarily insured and the home workers.

(m) WAGES PAID.—*France, Austria,* and *Italy:* Cash payments to workers exclusive of the value of bonuses, sustentation funds, etc.

(n) RATIO, MALE TO FEMALE WORKERS.—*Germany:* In industries employing at least 10 workers.

(o) AVERAGE WEEKLY WAGE.—*Japan:* The figure cannot be stated as returns for total wages paid are not available. Daily wages are 1*s.* 1*d.* for males and 6*d.* for females, respectively, over 14 years of age. *Australia, Canada* and *United States:* Arrived at from preceding figures of wages paid and number of employés.

(p) RETAILERS.—*Japan:* In December, 1909.

APPENDIX I

TABLE 3—FRANCE: Financial Results, 1912 and 190

(Reference: Official Report, pp. vii, xxii, xxiv, 33, 38, 150)

	1912 £	1902 £
Receipts		
Sales of manufactured tobacco in France ..	21,170,100	16,681,900
Customs duties on private imports	31,450	20,950
Sales to Corsica and Algeria	27,550	24,700
Export sales	160,950	93,650
Sale of nicotine	10,800	—
Corsican Customs duties	17,750	7,800
Royalties of shops not assigned	22,650	7,050
Sundry receipts (including in 1912, £8,500, contributions to pension fund)	31,800	39,750
	21,473,050	16,875,800
Expenditure		
Expenses, less amount converted to increase of assets	4,051,750	3,298,500
Net Revenue officially reported (a)	£17,421,300	£13,577,300
Population(b)	39,312,700	38,366,350
Reported revenue per head of population(a) ..	8*s.* 10·3*d.*	7*s.* 0·2*d.*
do. per lb. of manufactured tobacco sold(a)	3*s.* 7·2*d.*	3*s.* 2·1*d.*
Money spent per head (at retail value) (c) ..	11*s.* 8·3*d.*	9*s.* 4·9*d.*
Average retail price per lb. in France (d) ..	4*s.* 10·5*d.*	4*s.* 3·3*d.*
Consumption per head	2·41 lb.	2·17 lb.

(*a*) For the reductions that should be made in this revenue see pp. 69 to 75.

(*b*) The figures stated here are those adopted by the *Régie* in its Official Reports; see Notes on p. 76, and to Tables 1 and 2.

(*c*) Including duties on private imports.

(*d*) Average wholesale prices are compared in Table 10.

TABLE 4—FRANCE: Summary of Expenditure, 1912

(*Reference: Official Report, pp.* x–xxiv, 9–11)

		£
Purchase of tobacco (leaf and manufactured)		2,514,450
Personnel (computers, etc.) on plantations		50,400
Other expenses on French crop		3,600
Salaries, wages, etc., in raw-material warehouses		51,050
do. do. in factories		1,068,400
Salaries etc., to wholesale depot-keepers		27,400
Capital expenditure on land and buildings		29,850
Maintenance and repair of buildings		10,050
Maintenance, repair and purchase of plant, machinery, etc. ..		54,700
Various furnishings and requisites		200,350
Rent of sundry premises, and taxes		21,600
Freight and transport		146,200
Central administration: staff, stationery, etc., and pensions ..		54,850
Sundry expenses (including £7,150 for wholesale depots) ..		8,550
Total		4,241,450
Less excess of tobacco stocks during the year	£65,450	
Do. do. value of buildings, plant, etc.	£124,250	
		189,700
Net expenditure		£4,051,750
Per lb. of tobacco sold (96,044,200 lb.)		10·12*d.*
Gross expenditure, less total cost of tobacco and increase in value of buildings, plant, etc.		£1,497,700
Per lb. of tobacco manufactured (94,527,650 lb.)		3·80*d.*
do. raw tobacco used in manufacture (105,610,000 lb.)		3·40*d.*

APPENDIX I

TABLE 5— FRANCE: Valuation of Capital and Stock in Hand, 1912

(*Reference: Official Report, pp.* 36–7, 38–9, 162–7)

	On Jan. 1	On Dec. 31	Difference
	£	£	£
Tobacco—finished goods, goods in course of manufacture, and leaf	4,097,550	4,163,000	+ 65,450
Land and buildings	1,704,250	1,787,150	+ 82,900
Plant, machinery and tools	378,200	406,650	+ 28,450
Furniture, furnishings and requisites	133,200	146,100	+ 12,900
	£6,313,200	£6,502,900	+£189,700
Tobacco Stocks	lb.	lb.	
Foreign leaf	57,028,250	57,123,750	
Indigenous leaf	42,916,650	42,908,150	
Goods in preparation	35,925,450	35,143,850	
Finished goods	10,402,350	10,664,050	
Residue, waste and nicotine	385,900	640,150	
	146,658,600	146,479,950	
Average Stock-taking Values per lb.			
Foreign leaf (in factories)	5·39*d.*	5·34*d.*	
Home-grown and Algerian leaf (in factories)	5·58*d.*	5·78*d.*	
All leaf (in factories)	5·51*d.*	5·57*d.*	
French-made goods (in wholesale stores)	9·12*d.*	9·49*d.*	
Imported manufactures do.	14*s.* 5·1*d.*	14*s.* 6·5*d.*	
All finished goods do.	10·01*d.*	10·45*d.*	

TABLE 6—FRANCE: PURCHASE OF TOBACCO, 1912

(*Reference: Official Report, pp.* x—xii, 234–5)

	lb.	£	Average price per lb.
Home-grown leaf	41,816,800	823,500	4·72*d.*
Algerian leaf	5,360,150	58,350	2·61*d.*
Home-grown and Algerian leaf	*47,176,950*	*881,850*	4·48*d.*
Imported leaf—			
Havana and Sumatra	872,200	102,250	2*s.* 4·0*d.*
Kentucky, Virginia, Maryland, Ohio	38,154,300	706,200	4·45*d.*
Java, Brazil and Manilla	11,932,250	364,100	7·33*d.*
Hungary	5,611,000	87,150	3·73*d.*
Russia, Burmah, and others	9,042,150	149,450	3·95*d.*
Total (including £14,900 shipping dues)	*65,611,900*	*1,409,150*	5·15*d.*
Total leaf	*112,788,850*	*2,291,000*	4·86*d.*
Cut ribs and nicotine	546,250	5,400	2·38*d.*
Confiscated and returned tobacco	163,900	7,300	10·77*d.*
Imported manufactures—			
Cigars	120,450	126,750	21*s.* 0·6*d.*
Cigarettes	170,300	81,850	9*s.* 7·3*d.*
Cut tobacco	15,550	2,150	2*s.* 9·1*d.*
Total	*306,300*	*210,750*	13*s.* 9·3*d.*
Total purchases	113,805,300	£2,514,450	5·30*d.*

Of the imported tobaccos, 28,968,100 lb., value £879,100, were bought through French Consuls abroad; the rest were procured through the ordinary channels of commerce.

TABLE 7—FRANCE: PARTICULARS OF SALES IN FRANCE, 1912

(*Reference: Official Report, pp.* vii, 20–33)

	lb.	£	Per cent of quantity
Cigars	5,353,500	2,307,850	5·62
Cigarettes	8,086,800	4,354,300	8·52
Cut tobacco	68,646,950	11,826,500	72·31
Plug, roll and twist	2,537,700	551,800	2·68
Snuff	10,320,750	2,129,650	10·87
	94,945,700	£21,170,100	100·00
French-made goods	94,615,150	20,578,000	99·63
Imported goods	330,550	592,100	0·35
Private imports	25,400	31,450	0·02
Total consumption	94,971,100	£21,201,550	100·00
Total consumption per head	2·41 lb.		

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TABLE 8—FRANCE: Particulars of Sales outside France, 1912

(Reference: Official Report, pp. vii, 138–9)

	lb.	£
Sales in Corsica	135,750	22,000
Sales in Algeria	69,350	10,000
Export sales (including ship supplies)—		
Cigars	22,200	9,450
Cigarettes	339,000	104,500
Cut tobacco	488,800	49,200
Plug, roll and twist	6,950	600
Snuff	36,450	3,400
Total	893,400	167,150
Total sales outside France	1,098,500	199,150
Less Algerian Duty (£4,450) and Foreign Commissions (£6,200)		10,650
		£188,500

Destination of Manufactured Goods	lb.	Per cent of total quantity sold
Corsica and Algeria	205,100	0·22
Supplied to ships in French ports	130,400	0·14
Exported to foreign countries	763,000	0·79
	1,098,500	1·15

TABLE 9—FRANCE: Average Selling and Cost Prices, 1912

(Reference: Official Report, p. 32, and previous Tables)

	Wholesale price per lb. in France	Purchase price per lb.
French Manufactured Goods		
Cigars	7*s.* 7·2*d.*	
Cigarettes	10*s.* 4·4*d.*	
Cut tobacco	3*s.* 5·3*d.*	
Plug, roll and twist	4*s.* 4·1*d.*	
Snuff	4*s.* 1·5*d.*	
All goods	4*s.* 5·5d.	9·49*d.* (*a*)
Imported Manufactured Goods		
Cigars	48*s.* 2·8*d.*	21*s.* 0·6*d.*
Cigarettes	28*s.* 11·7*d.*	9*s.* 7·3*d.*
Cut tobacco	12*s.* 2·2*d.*	2*s.* 9·1*d.*
All goods	33*s.* 7·1*d.*	13*s.* 9·3*d.*
Tariff on Private Imports		
Cigars and cigarettes, per lb.	27*s.* 3*d.*	
Levant smoking-tobacco, per lb.	13*s.* 7·5*d.*	
Other manufactured-tobacco, per lb.	6*s.* 6·5*d.*	
All goods (average paid), per lb.	24*s.* 9*d.*	

a) Stock-taking value in wholesale depots, December, 1912.

TABLE 10—FRANCE: AVERAGE SELLING PRICES IN 1912 AS COMPARED WITH 1902

(*Reference: Official Report, pp.* 190–5)

	1902 per lb.	1912 per lb.
Cigars, imported	42*s.* 4*d.*	48*s.* 3*d.*
Cigars, made in France	6*s.* 5·7*d.*	7*s.* 7·1*d.*
Cigars, all kinds	7*s.* 1·2*d.*	8*s.* 7·5*d.*
Cigarettes, all kinds	10*s.* 2*d.*	10*s.* 6·9*d.*
Cut tobacco	3*s.* 2·2*d.*	3*s.* 5·2*d.*
Plug	4*s.* 2·2*d.*	4*s.* 2·2*d.*
Roll and twist	4*s.* 6·3*d.*	4*s.* 6·5*d.*
Snuff	4*s.* 1·3*d.*	4*s.* 1·4*d.*
Tobacco, all kinds	3*s.* 11 5*d.*	4*s.* 5·5*d.*

The above comparison, according to averages is not conclusive, increases in price having caused displacements in consumption as explained in the text (p. 80—3) and as illustrated in Table 13.

TABLE 11—FRANCE: DEMONSTRATION, BY PRICE PAID, OF THE RELATIVE QUALITY OF ALL GOODS SOLD, 1912

(*Compiled from Official Report, pp.* 14–17, 198–203)

	lb.	£	Per cent of quantity sold	Average price per lb. (wholesale)
Cheaper Goods				
Cigars retailed at 3*d.* and less; cigarettes at less than 3*d.* for 10; all tobacco at 4*s.* 6½*d.* per lb. and less	86,177,000	16,773,250	89·73	3*s.* 10·7*d.*
Higher-priced Goods				
Cigars retailed at more than 3*d.* each; cigarettes at 3*d.* for 10 and dearer; all tobacco at more than 4*s.* 6½*d.* per lb.; all imported goods	9,867,000	4,596,000	10·27	6*s.* 0·8*d.*
Total	96,044,200	£21,369,250	100·00	
Official Classification				
Tobacco 'de luxe' (*a*)	16,904,150	7,804,600	17·60	9*s.* 3·0*d.*
Tobacco of 'current sale'	58,769,650	12,337,200	61·19	4*s.* 2·4*d.*
Sold at reduced prices (*a*)—				
In the 'zones'	15,135,300	1,095,850	15·76	1*s.* 5·4*d.*
Canteen tobacco	4,629,700	113,750	4·82	5·8*d.*
For hospitals	605,400	17,850	0·63	7·1*d.*
Total	96,044,200	£21,369,250	100·00	

(*a*) Many of the 'de luxe' brands are really low-priced goods. Such tobacco and that sold at reduced prices have been included in the 'cheaper goods' above.

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TABLE 12—FRANCE: Examples of Difference between Home and Export Prices

(*Reference: Official Report, pp.* 26–33)

	Home price per lb. (wholesale)	For general export per lb.
Cigars		
Londrecitos	12*s.* 2*d.*	10*s.* 5*d.*
Ten centimes	8*s.* 1*d.*	5*s.* 5*d.*
Five centimes	4*s.* 0*d.*	2*s.* 7*d.*
Cigarettes		
Ninas	17*s.* 0*d.*	8*s.* 3*d.*
Gauloises	12*s.* 8*d.*	6*s.* 8*d.*
Elegantes	11*s.* 0*d.*	5*s.* 10*d.*
Roulées	11*s.* 10*d.*	6*s.* 6*d.*
Cut Tobacco		
Maryland	8*s.* 6*d.*	2*s.* 10*d.*
Superior	5*s.* 5*d.*	2*s.* 3*d.*
Ordinary (40 gramme packets)	4*s.* 3*d.*	1*s.* 9*d.*

TABLE 13—FRANCE: Relative Consumption of 'Superior' and 'Ordinary' Cut Tobacco, 1902 to 1912 (Prices of 'Superior' Tobacco having been raised)

(*Reference: Official Report, pp.* 190–1)

	Quantity consumed		'Superior' as per cent of combined consumption
	'Superior' kilos. (2·2 lb.)	'Ordinary' kilos. (2·2 lb.)	
1901	2,458,081	15,762,021	13·49
1902 Increase in prices (Dec.) ..	2,561,816	16,068,387	13·75
1903	1,970,728	17,174,126	10·29
1904	2,076,917	17,651,875	10·52
1905	2,127,663	17,598,158	10·79
1906	2,333,164	17,261,667	11·90
1907	2,531,885	17,427,486	12·68
1908	2,712,551	17,646,470	13·32
1909	2,725,660	17,849,157	13·24
1910 Increase in prices (May) ..	1,583,373	19,418,592	7·54
1911 Partial resumption (Aug.) ..	1,318,717	20,129,899	6·15
1912	2,331,656	19,983,388	10·44

TABLE 14—FRANCE: EMPLOYMENT AND WAGES IN THE FACTORIES, 1912

(*Reference: Official Report, pp.* x–xix, 174–5)

	Number	Remuneration £	Weekly Average
'Commissioned' staff: managers, officials, and their employés ..	171		
Regular salaries		31,650	
Various bonuses		1,700	
Total		*33,350*	74*s.* 10*d.*
Foremen, forewomen, etc.—			
Men	715		
Women	186		
Total	*901*		
Regular wages		82,450	
Various allowances		2,300	
Total		*84,750*	36*s.* 2*d.*
Working operatives—			
Men	2,344		
Women	15,624		
Total	*17,968*		
Regular wages		807,750	17*s.* 3*d.*
Pensions, bonuses, medical relief, etc., to foremen, forewomen, and working operatives in the factories ..		142,550	
Inclusive wage to all working personnel other than the 'commissioned' staff—18,869 persons in all ..		1,035,050	25*s.* 4*d.*
Total personnel	19,040	£1,068,400	
Average daily inclusive wage of male factory operative		5*s.* 5·7*d.*	
Average daily inclusive wage of female factory operative		3*s.* 6·4*d.*	
Ratio of male to female workers ..		10 to 66·6	
Net wages of foremen and ordinary workers, apart from pensions, bonuses, etc.		£890,200	
Ditto per lb. of tobacco manufactured (94,527,650 lb.)		2·26*d.*	
Ditto per week		18*s.* 1*d.*	

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TABLE 15—FRANCE: 'Commissioned' Staff in the Factories and their Salaries, 1912

(*Reference: Finance Ministry Accounts*, 1912, *p.* 128)

	Number	Annual salary
Directors	24	£320 to £480
Engineers of 1st, 2nd, and 3rd classes	23	£200 to £280
Engineers of 4th and 5th classes	8	£120 to £160
Apprentice engineers	7	£80
Factory superintendents	21	£200 to £320
Chief clerks	21	£140 to £200
Principal and other clerks	52	£72 to £140
Clerks (probationers)	6	£60
Total	162	

The total number stated here differs from the total number given in the Report of the Tobacco *Régie*.

TABLE 16—FRANCE: Goods produced and Materials employed in Manufacture, 1912

(*Reference: Official Report, pp.* xiv, xv, 72, 76)

	lb.	Per cent of total leaf employed
Tobacco products manufactured	94,527,650	
Raw material introduced—		
French and Algerian leaf	40,493,300	38·34
Imported leaf	65,116,700	61·66
Partly made goods: excess of stocks on January 1, over December 31	997,350	
Residue produced (the bulk of it being treated for extraction of nicotine)	9,145,650	
Difference between manufacturing loss in weight (38,758,500 lb.) and gain in weight due to salts, moisture, etc. (36,658,850 lb.)	2,197,650	

TABLE 17—FRANCE: RETAILERS AND THEIR PROFITS, 1912.
(*Reference: Official Report, pp.* vii, 152–6)

Number of 'débits' or retail shops	47,500
Population per shop	828
Tobacco sold through retail shops	93,647,100 lb.
Retail price of such tobacco	£22,855,300
Price paid by the shops to the *Régie*	£21,026,000
Total retail commission	£1,829,300
Average quantity of tobacco sold per shop	1971·5 lb.
Average income per shop	£38 10*s.*
Average profit per lb. sold	4·7*d.*
Average profit as per cent of sales	8·00%
Average retail price per lb.	4*s.* 10·5*d.*

TABLE 18—FRANCE: PARTICULARS OF TOBACCO-GROWING IN FRANCE, 1911
(*Reference: Official Report, pp.* x, 94–5, 230–31)

1911 Crop—used in 1912	
Number of departments in which cultivation is permitted	28
Acres authorized to be cultivated	44,472
Acres cultivated	36,581
Number of planters	47,520
Tobacco requisitioned	61,982,800 lb.
Tobacco delivered and paid for	41,816,800 lb.
Price paid	£823,500
Incidental expenses	£643
Weight of crop per acre cultivated	1,153 lb.
Value of crop per acre cultivated	£22 10*s.*
Average price of crop per lb.	4·72*d.*

TABLE 19—FRANCE: CLASSIFICATION OF FRENCH CROP, 1911
(*Reference: Official Report, pp.* 230–1)

	Per cent of total crop	Prices paid per lb.
'Tabacs Marchands,' superfine	1·08	8·06*d.*
do. do. 1st quality	28·01	6·32*d.* to 5·67*d.* (*a*)
do. do. 2nd quality	18·07	4·88*d.* to 4·36*d.* (*a*)
do. do. 3rd quality	37·43	3·92*d.* to 3·49*d.* (*a*)
'Tabacs non Marchands,' 1st class	9·59	3·05*d.* to 2·18*d.* (*b*)
do. do. do. 2nd class	5·06	2·18*d.* to 1·52*d.* (*b*)
do. do. do. 3rd class	0·79	1·09*d.* to 0·87*d.* (*b*)

(*a*) Plus premium of 10 frs. per 100 kg. (0·43*d.* per lb.) for good condition.
(*b*) Plus premium of 5 frs. per 100 kg. (0·21*d.* per lb.) for good condition.

TABLE 20.—FRANCE:

Comparative Results of Tobacco-Growing in France

(*Reference: Official Reports* 1907, *p.* 230; *and* 1912, *pp.* 184, 230)

Year of Harvest (Crops bought in following year)	Planters engaged	Acreage devoted to cultivation	Crop paid for (lb.)	Per cent of total tobacco bought	Average price per lb.	Classification as per cent of total crop			
						Surchoix and 1st.	2nd quality	3rd quality	'non marchands'
1903	54,400	40,602	52,932,550	48·10	3·88*d.*	11·72	16·36	42·67	29·25
1904	53,749	39,008	45,092,100	39·15	3·97*d.*	12·05	18·70	41·79	27·56
1905	53,750	39,423	61,613,550	54·14	3·99*d.*	10·20	17·59	45·84	24·37
1906	52,470	37,922	35,615,300	38·21	4·05*d.*	14·76	19·35	39·68	26·21
1907	52,366	38,682	44,739,050	43·60	4·17*d.*	17·52	18·58	40·82	23·08
1908	49,718	37,442	53,571,950	49·21	4·21*d.*	18·18	17·75	42·67	21·40
1909	48,395	37,141	50,895,750	47·84	4·36*d.*	22·25	18·27	41·86	17·62
1910	47,283	36,267	46,275,250	40·36	4·58*d.*	26·16	17·95	40·14	15·73
1911	47,520	36,581	41,816,800	36·69	4·72*d.*	29·09	18·07	37·43	15·44
1912	47,141	36,617	54,775,800	——	4·76*d.*	26·02	19·71	41·08	13·19

TABLE 21—FRANCE: ESTIMATE OF THE QUOTA OF SALARIES AND EXPENDITURE, INCURRED BY THE ADMINISTRATION OF INDIRECT TAXES, CHARGEABLE TO THE TOBACCO REGIE, 1912

(*Reference: Finance Ministry Accounts, 1912, pp.* 72–8, 120–2; *French Year Book, 1912, pp.* 297–8)

	No. on Staff	£
Central Administration of Indirect Taxes—		
Salaries of Staff	107	18,050
Special Services		50
Printing		1,200
Sundries		100
Administrative Service—		
Salaries of Directors, sub-Directors, Inspectors, principal and particular receivers of taxes, store-keepers, controllers, travelling collectors and their clerks, clerical staff, etc., also commissions and various payments	11,014	1,411,950
Personal expenses		159,500
		£1,590,850
Total Revenue collected and controlled by the Administration of Indirect Taxes—		
Internal indirect taxes		26,701,700
Salt Tax (Excise)		447,300
Sugar Tax (Excise)		5,017,500
Match Monopoly		1,719,250
Tobacco Monopoly		21,369,000
Powder Monopoly		961,800
		£56,216,550
Proportion of expenditure on collecting £21,369,020 out of a total of £56,216,548		605,300
Amount charged in Régie Accounts against Salaries and Staff of the Administration of Indirect Taxes		34,550
Balance chargeable, but not debited		£570,750

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TABLE 22 — FRANCE: Railway Freights on Tobacco paid by the French Monopoly

(Compared with freights on Belgian and Prussian State Railways)

(*References: French rates, cf. App. V; 10. Belgian and Prussian rates, from private advices*)

	Francs per 1,000 kg. per kilometre			
	France		Belgium	Prussia(a)
	Leaf	Mnfg.	Leaf & Mnfg.	Leaf & Mnfg.
Express—				
Up to 25 kilometres	0·22	0·22	0·52	
50 kilometres	0·22	0·22	0·36	
100 kilometres	0·22	0·22	0·27	
Goods—				
Up to 25 kilometres	0·08	0·09	0·148	0·195
50 kilometres	0·08	0·09	0·142	0·168
100 kilometres	0·08	0·09	0·116	0·155
500 kilometres	0·08	0·09	—	0·114

(*a*) The Prussian rates quoted are for consignments up to 1,000 kg.; for larger consignments the rates are lower, but it is only if the weight exceeds 10,000 kilos. and the distance 500 kilometres that the cost of transport in Prussia is less than in France. Francs are converted from Marks at 1 Mk. = 1·223 francs.

TABLE 23—ITALY: FINANCIAL RESULTS, JULY 1, 1912–JUNE 1, 1913

(*Reference: Official Report, pp.* xxv, xxvi, 3, 210–11)

	£
Receipts	
Sale of manufactured tobacco in Italy	12,745,000
Customs duties on private imports	5,300
Rebates paid by retailers	180,350
Taxes and fines paid by growers	12,600
Sundry receipts	9,900
'Monopoly receipts'	*12,953,150*
Sale of tobacco exported, and of secondary products (so-called 'extra-monopoly' receipts)	373,700
Total receipts	13,326,850
Expenditure	
Expenses, less amount converted to increase of assets	3,251,450
Net Revenue	£10,075,400
Revenue per head of population (35,239,000)	5*s.* 8·1*d.*
Revenue per lb. of manufactured tobacco sold	4*s.* 4·6*d.*
Money spent per head (at retail value)	7*s.* 10·4*d.*
Average retail price per lb. in Italy	6*s.* 5·5*d.*

TABLE 24—ITALY: FINANCIAL RESULTS IN 1912–13 COMPARED WITH 1902–3, AND SHOWING SEPARATELY THE RESULTS FROM ITALIAN AND FROM 'EXTRA-MONOPOLY' TRADE

(*Reference: Official Report, pp.* xxvi, 228)

	1912–13	1902–3
Trade in Italy		
Receipts	£12,953,150	£8,181,200
Expenditure	£3,006,600	£1,927,300
Net Revenue	£9,946,550	£6,253,900
Population	35,239,000	32,846,100
Revenue per head	5*s.* 6·1*d.*	3*s.* 9·0*d.*
Manufactured tobacco sold, lb.	42,930,400	34,479,700
Revenue per lb. (sold in Italy)	4*s.* 6·4*d.*	3*s.* 7·5*d.*
Consumption per head	1·22 lb.	1·06 lb.
'Extra-monopoly' Trade		
Receipts	£373,700	£105,950
Expenditure	£244,850	£58,800
Net Revenue	£128,850	£47,150
Total Trade		
Receipts	£13,326,850	£8,297,150
Expenditure	£3,251,450	£1,996,100
Net Revenue	£10,075,400	£6,301,050
Total revenue per head	5*s.* 8·1*d.*	3*s.* 7·8*d.*

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TABLE 25—ITALY: Summary of Expenditure, 1912–13

(Reference: Official Report, pp. xxiii, xlviii–li, 2, 8–31)

		£
Purchase of tobacco (leaf and manufactured) ..		1,960,400
Expenditure on foreign supplies		7,450
Personnel (computers, etc.), on plantations ..		44,450
Salaries, wages, etc., in factories and in two raw material warehouses		683,850
Personnel in warehouses for finished goods and commissions to wholesale depot-keepers ..		87,600
Salaries of various other officials		61,500
Machinery and sundry articles bought		194,500
Repair and upkeep of premises		19,950
Rent of Crown property—factories		15,300
Rent of other Crown property		6,500
Rent of private property		9,650
Freight and transport		66,750
Central Administration		13,450
Quota towards Inland Revenue Inspectors ..		263,000
Interest on capital (at 3½ per cent)		120,950
Sundry expenses		17,400
Total		3,572,700
Less excess of tobacco stocks during the year ..	£292,000	
do. value of buildings, plant, etc. ..	£29,250	321,250
Net expenditure		£3,251,450
Per lb. of tobacco sold (45,938,950 lb.) ..		1*s.* 4·9*d.*
Gross expenditure, less total cost of tobacco and increase in value of buildings, plant, etc. ..		£1,531,150
Per lb. of tobacco manufactured (46,840,300 lb.)		7·84*d.*
do. raw tobacco used in manufacture (55,531,000 lb.)		6·61*d.*

TABLE 26—ITALY: VALUATION OF CAPITAL AND STOCK IN HAND, 1912–13

(*Reference: Official Report, pp.* 102–129.)

	July 1, 1912	June 30, 1913	Difference
	£	£	£
Tobacco—finished goods, goods in course of manufacture and leaf	3,051,550	3,343,550	+ 292,000
Land and buildings (Crown property)	—	—	—
Plant and machinery (*materiale mobile*)	280,900	302,450	+ 21,550
Ingredients	1,050	850	— 200
Sundry material, printed matter	80,000	86,450	+ 6,450
Receptacles	41,750	43,200	+ 1,450
	£3,455,250	£3,776,500	+£321,250
Tobacco Stocks	lb.	lb.	
Foreign leaf	37,173,300	46,222,250	
Indigenous leaf	32,711,200	34,123,200	
Goods in preparation	19,776,400	19,233,050	
Finished goods	5,889,850	5,495,300	
Residue, waste, etc.	9,248,050	6,710,850	
	104,798,800	111,784,650	
Average Stock-taking Values per lb.			
Foreign leaf, in factories (*a*)	7·27*d.*	8·60*d.*	
Indigenous leaf, in factories (*a*)	5·30*d.*	5·21*d.*	
All leaf, in factories (*a*)	6·12*d.*	6·39*d.*	
Italian-made goods (*b*) warehoused	1*s.* 2·5*d.*	1*s.* 2·3*d.*	
Manufacturing waste, in factories	1·13*d.*	1·08*d.*	

(*a*) These figures disagree with the corresponding figures given in Table 35; the latter represent the respective values of leaf actually introduced into manufacture, the former are the values at the time of stock-taking.

(*b*) The cost prices of the several products are stated in Table 30.

TABLE 27—ITALY: PURCHASE OF TOBACCO, 1912–13

(*Reference: Official Report, pp.* xxviii–xxxi, xxxiii, 32–41)

	lb.	£	Average price per lb.
Home-grown leaf	19,824,100	297,700	3·60*d.*
Imported leaf—			
Kentucky, Virginia and Maryland	41,890,750	1,119,300	6·4 *d.*
Eastern Europe	8,942,800	449,600	12·06*d.*
Havana, Sumatra	569,400	28,750	12·11*d.*
Other sources	1,502,200	33,250	5·31*d.*
Total	*52,905,150*	*1,630,900*	7·40*d.*
Total leaf	*72,729,250*	*1,928,600*	6·36*d.*
Confiscated and abandoned tobacco	66,100	900	3·32*d.*
Imported manufactures—			
Cigars	10,200	11,050	21*s.* 7*d.*
Cigarettes	37,900	18,750	9*s.* 10·7*d.*
Cut tobacco	6,100	850	2*s.* 9·3*d.*
Snuff	3,100	250	1*s.* 8·3*d.*
Total	*57,300*	*30,900*	10*s.* 9·3*d.*
Total purchases	72,852,650	£1,960,400	6·46*d.*

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TABLE 28—ITALY: Particulars of Sales in Italy, 1912–13

(*Reference: Official Report, pp.* xi, 208)

	lb.	£	Per cent of quantity
Cigars	19,032,600	6,373,750	44·33
Cigarettes	7,458,150	3,971,800	17·38
Cut tobacco	12,339,550	1,828,100	28·74
Snuff	4,100,100	571,350	9·55
	42,930,400	£12,745,000	100·00
Italian-made goods	42,874,550	12,671,200	99·87
Imported manufactured goods	55,850	73,800	0·13
Private imports (*a*)	4,000	5,300	0·00
Total consumption	42,934,400	£12,750,300	100·00
Total consumption per head	1·22 lb.		

(*a*) The quantity imported is not returned in the Official Report, but is here estimated from duties paid, at 26*s.* 6*d.* per lb., the average price of imports sold by the Monopoly.

TABLE 29—ITALY: Particulars of 'Extra-Monopoly' Sales, 1912–13

(*Reference: Official Report, pp.* xi–xviii, xxii, 62–9)

		lb.	£	Average price per lb.
Manufactured Goods				
Cigars		1,967,150	248,000	2*s.* 6·2*d.*
Cigarettes (including 139 lb. foreign, value £91)		553,150	67,200	2*s.* 5·1*d.*
Cut tobacco		450,600	31,850	1*s.* 5*d.*
Snuff		37,650	3,900	2*s* 1*d.*
Total		*3,008,550*	*350,950*	
Net value subject to exchanges and discounts			*343,950*	2*s.* 3·4*d.*
Secondary Products, etc.				
Extract and powder sold in Italy		479,800	9,650	
Residue, etc., exported		3,229,250	19,000	
Leaf exported		25,200	1,100	
		6,742,800	£373,700	

Destination of Manufactured Goods	Quantity lb.	Receipts £	Per cent of total quantity sold	Per cent of total receipts
Supplied to ships in Italian ports	308,250	43,050	0·66	0·32
Colonies and territories occupied by troops	1,091,200	110,550	2·37	0·83
Exported to the Argentine	1,208,900	153,250	2·63	1·15
Exported to other countries	400,200	44,100	0·87	0·33
	3,008,550	£350,950	6·53	2·63

TABLE 30—ITALY: AVERAGE SELLING AND COST PRICES, 1912–13

(*Reference: Official Report, pp.* xi, xviii–xxii, 62–9, 118; '*Il Tabacco,*' *passim*, for Tariff)

	Wholesale price per lb. in Italy	Cost price per lb. at wholesale depots
Italian Manufactured Goods		
Cigars	6*s.* 8·2*d.*	1*s.* 10·0*d.*
Cigarettes	10*s.* 6·7*d.*	1*s.* 7·1*d.*
Cut tobacco	2*s.* 11·5*d.*	8·3*d.*
Snuff	2*s.* 9·1*d.*	7·8*d.*
All goods	5*s.* 10·9*d.*	1*s.* 4·6*d.*
Imported Manufactured Goods		
Cigars	32*s.* 4·2*d.*	21*s.* 7*d.*(*a*)
Cigarettes	31*s.* 4·3*d.*	9*s.* 10·7*d.*(*a*)
Cut tobacco	10*s.* 9·3*d.*	2*s.* 9·3*d.*(*a*)
Snuff	5*s.* 1·4*d.*	1*s.* 8·3*d.*(*a*)
All goods	26*s.* 5·3*d.*	10*s.* 9·3*d.*(*a*)
Italian and Imported Goods	5*s.* 11·2*d.*	
Tariff on Private Imports		
Cigars (Havana, Manilla) and cigarettes	12*s.* 8*d.* per lb.	+ 1*s.* 7*d.* for licence.
Other goods	7*s.* 3*d.* per lb.	+ 1*s.* 7*d.* for licence.

(*a*) Purchase price.

TABLE 31—ITALY: DEMONSTRATION BY PRICE PAID, OF THE RELATIVE QUALITY OF GOODS CONSUMED IN ITALY, 1912

(*Compiled from Official Report, pp.* 46–52)

	lb.	£	Per cent of quantity sold	Average price per lb. (wholesale)
Cheaper Goods				
Cigars retailed at ¼*d.* each and less; cigarettes at 3*d.* per 10 and less; cut tobacco at 5*s.* per lb. and less; and snuff at 3*s.* 4*d.* per lb. and less	40,995,850	11,917,500	95·50	5*s.* 9·8*d.*
Higher-priced Goods				
All goods except those above mentioned, and imported goods	1,934,550	827,500	4·50	8*s.* 6·7*d.*
Total	42,930,400	£12,745,000	100·00	

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TABLE 32—ITALY: EXAMPLES OF DIFFERENCE BETWEEN HOME AND EXPORT PRICES

(*Reference: Official Report, pp. 46–52, 'Il Tabacco,' December* 1913, *January* 1914, *September* 1914)

	Home price per lb. (retail)		Export price per lb. (wholesale)	
	Before 1914	Revised in 1914	Before 1914	Revised in 1914
Cigars				
Grinald and Brazil	6*s.* 9*d.*	9*s.* 8½*d.*	3*s.* 7½*d.*	3*s.* 7½*d.*
Superior Virginia	10*s.* 0*d.*	10*s.* 0*d.*	3*s.* 7½*d.*	4*s.* 4*d.*
Choice Virginia	8*s.* 0*d.*	8*s.* 0*d.*	2*s.* 11*d.*	3*s.* 3*d.*
Common "Toscana"	6*s.* 9*d.*	9*s.* 8½*d.*	2*s.* 6½*d.*	2*s.* 8½*d.*
Common, 2nd quality	4*s.* 8*d.*	7*s.* 3*d.*	1*s.* 11½*d.*	2*s.* 6½*d.*
Common, 3rd quality	4*s.* 0*d.*	5*s.* 1*d.*	1*s.* 10*d.*	2*s.* 0*d.*
Cigarettes				
Giubek	13*s.* 5*d.*	16*s.* 4*d.*	3*s.* 7½*d.*	4*s.* 4*d.*
Macedonia	11*s.* 7*d.*	14*s.* 6½*d.*	2*s.* 11*d.*	2*s.* 11*d.*
Virginia	10*s.* 0*d.*	10*s.* 0*d.*	1*s.* 10*d.*	1*s.* 10*d.*
Cut Tobacco				
Superior Maryland	6*s.* 8*d.*	6*s.* 8*d.*	2*s.* 4*d.*	2*s.* 2*d.*
Sweet	5*s.* 0*d.*	5*s.* 0*d.*	1*s.* 10*d.*	1*s.* 10*d.*
"Spuntatore"	4*s.* 2*d.*	5*s.* 5½*d.*	1*s.* 1*d.*	1*s.* 1*d.*
First quality, strong ..	3*s.* 3½*d.*	4*s.* 6½*d.*	1*s.* 1*d.*	1*s.* 1*d.*
Second quality, common ..	2*s.* 7*d.*	3*s.* 7½*d.*	8½*d.*	8½*d.*
Snuff				
Superior	5*s.* 1*d.*	5*s.* 1*d.*	2*s.* 2*d.*	2*s.* 2*d.*
First quality	3*s.* 4*d.*	3*s.* 4*d.*	1*s.* 5½*d.*	1*s.* 5½*d.*

TABLE 33—ITALY: INDICATING THE EFFECT OF INCREASED PRICES ON CONSUMPTION

(*Reference: Official Report, 1913–14, pp. 62–73, and previous Reports; 'Il Tabacco,' January 1914.*)

July 1 to June 30	Sales of Tobacco in Italy		Difference compared with preceding year			
	Quantity lb.	Value £	Quantity lb.	Value £	per cent	
1909–10(*a*)	41,032,200	11,189,150	—	—		
1910–11 ..	40,915,800	11,682,350	— 116,400	+493,200	0·28	4·41
1911–12 ..	42,091,200	12,233,150	+1,175,400	+550,800	2·87	4·71
1912–13 ..	42,930.400	12,745,000	+ 839,200	+511,850	2·00	4·18
1913–14(*b*)	41,082,800	13,373,950	—1,847,600	+628,950	4·30	4·93

(*a*) Prices of most cut tobaccos and snuffs and of some cigars raised on February 11; prices of most cigarettes raised April 28.

(*b*) Prices of all tobaccos (including foreign products) raised on January 4, with the greatest increases on the lowest-priced goods.

TABLE 33—*continued.*

The measure of the increase in prices on Jan. 4, 1914	£	Average price per lb.
Retail value of goods sold in 1912–13	13,864,800	6*s.* 5·5*d.*
Annual value of same goods at retail prices fixed on Jan. 4, 1914 (*i.e.*, supposing no change in consumption)	16,111,700	7*s.* 6*d.*
Increase	£2,246,900	
Average increase, per cent	16·20	
Consumption before and after the 1914 increase in prices		
	lb.	£
July 1, 1913, to Jan. 3, 1914 (187 days).. ..	22,302,100	6,803,000
Jan. 4 to June 30, 1914 (178 days)	18,780,700	6,570,950
Deduct from latter the receipts due to difference between retailers' discount at 8·06 per cent (the previous average rate) and at 7·50 per cent (the new rate); value of retailers' sales= £7,101,450		39,750
	18,780,700	6,531,200
Rate of annual consumption per head (population 35,598,000) during the 187-day period ..	1·22 lb.	
Ditto, during the 178-day period	1·08 lb.	
Effect of increased prices		
	lb.	£
Probable sales during period Jan. 4 to June 30, 1914 (178 days), supposing conditions had remained unchanged	21,228,700	6,475,550
Add increment (c) (due to growth of population, developments in consumption, etc.) for 178 days on the basis of the annual increment in 1912–13 over 1911–12, viz., 2 per cent and 4·18 per cent as above	207,000	132,000
	21,435,700	£6,607,550
Actual sales	18,780,700	£6,531,200
Estimated diminution in sales	2,655,000	£76,350
Percentage diminution	13·26	1·15

(c) The returns for 1910–11 show a set-back following increased prices in February and April 1910; there was a recovery in 1911–12, and evidence of normal progress (in the absence of any change since 1910) during 1912–13. This would justify the allowance here made for the percentage increment in sales as disclosed during 1912–13.

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TABLE 34 — ITALY: Employment and Wages in the Factories 1912–13

(*Reference: Official Report, pp.* xlviii, li, 236)

In the nineteen Factories and two separate Raw-Material Warehouses	Persons engaged	Wages	Average per week
Managing staff, officials, superintendents, etc.	1,109	£71,600	24*s.* 10*d.*
Artisans (*Artieri*)	395		
Ordinary workers (men)	1,073	£497,600	10*s.* 8*d.*
Ordinary workers (women and girls) ..	16,446		
(I) Overtime to inspectors and technical workers		£13,300	
(II) Overtime, pensions, sick benefits, etc., to artisans and ordinary workers ..		£101,350	
Inclusive average weekly wage, Class (I) ..			29*s.* 5*d.*
Inclusive average weekly wage, Class (II) ..			12*s.* 10*d.*
	19,023	£683,850	
Girls employed		1,998	
Ratio of male to female workers		10 to 153	
Inclusive wage for each day worked, calculated in the Official Report to be equivalent to per			
Male worker		4*s.* 6*d.*	
Female worker		2*s.* 2½*d.*	
Net wages to artisans and ordinary workers, apart from overtime, pensions, etc. ..		£497,600	
Ditto per lb. of tobacco manufactured (46,840,300 lb.)		2·55*d.*	

TABLE 35—ITALY: GOODS PRODUCED AND MATERIALS EMPLOYED IN MANUFACTURE, 1912–13

(*Reference: Official Report, pp.* 107, 113, 186)

	lb.	Per cent
Weight of finished goods manufactured	46,840,300	
Raw material introduced—		
Italian leaf at 5·48*d.* per lb.(*a*)	16,607,650	24·16
Foreign leaf at 7·51*d.* per lb.(*a*)	42,454,400	61·76
Manufacturing waste at 1·50*d.* per lb.	9,583,300	13·94
Sweepings, contraband and abandoned tobacco	99,850	0·14
Total	68,745,200	100·00
Plus excess of partly finished goods in stock on June 30, 1912, over same on June 30, 1913 ..	232,050	
Raw material employed	68,977,250	
Manufacturing waste produced	13,446,250	
Raw material actually made up	55,531,000	

(*a*) Valued in condition ready for manufacturing; the value of both indigenous and foreign leaf taken together was 6·93*d.* per lb.

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TABLE 36—ITALY: Percentage of Raw Materials in each Class of Goods, 1912–13

(*Reference: Official Report, p.* 186)

	Cigars	Cigarettes	Cut tobacco	Snuff
Weight of finished goods manufactured, lb. ..	20,836,900	8,132,250	13,512,450	4,358,700
Italian leaf, per cent ..	14·94	23·41	47·00	46·25
Foreign leaf, per cent ..	82·40	72·69	8·44	0·10
Manufacturing waste, per cent	2·65	3·80	44·51	51·60
Sweepings, contraband, etc., per cent	0·01	0·10	0·05	2·05
Raw material employed, lb.	42,885,300	8,177,650	13,787,400	4,126,900
Manufacturing waste produced, lb.	11,838,950	452,100	802,650	352,550
Raw material actually made up, lb.	31,046,350	7,725,550	12,984,750	3,774,350

TABLE 37—ITALY: Retailers and their Profits, 1912–

(*Reference: Official Report, pp.* lvii–lix, 45, 78, 210–11)

Shops conceded gratuitously	10,448
Shops conceded with fixed rebate	21,452
Shops leased by auction	2,852
Total	34,752
Population per shop	1,014
Receipts from sales by wholesale depots	£4,350
Receipts from sales to retailers (42,917,950 lb.)	£12,740,650
Commissions to retailers	£1,117,450
Average commission as per cent of sales	8·06%
Rebates off retailers' profits :—	
Paid by concessionaires	£94,250
Paid by auctioned shops	£86,100
	£180,350
Average annual net profit	£27
Net profit per lb. sold	5·2*d.*
Average retail price per lb.	6*s.* 5·5*d.*

TABLE 38—ITALY: PARTICULARS OF TOBACCO-GROWING IN ITALY, 1912

(*Reference : Official Report, pp.* xxxiii–xl, 34, 141, 177, 189)

	Area in acres	Crop paid for lb.	Purchase price £	Value per lb.
All Growers				
'Manifesto' Concessions ..	12,534	13,264,450	184,050	3·33*d.*
Experiments with State co-operation	370	661,000	9,800	3·56*d.*
Special Concessions (*fattorie autonome*)	5,310	3,763,250	73,200	4·66*d.*
Various experiments ..	27	214,450	2,450	3·26*d.*
Cultivation for export ..	699	1,920,950	28,200	3·52*d.*
	18,940	19,824,100	297,700	3·60*d.*
Net Payments to Growers under 'Manifesto' Concessions				
Tobacco delivered in loose state, lb.		13,145,818		
Payment made on basis of 'Manifesto' prices, and excluding premiums ..		£179,250		
Less Vigilance tax £2,550				
,, Statutory fines £2,900		5,450		
Net payment		£173,800		
Ditto per lb. delivered ..		3·17*d.*		

TABLE 39—ITALY: COMPARATIVE RESULTS OF TOBACCO-GROWING IN ITALY

(*Reference : Official Report, pp.* 177, 189)

Year	Crop delivered			Italian leaf used, as per cent of total leaf
	"Manifesto" concessions lb.	Special and other concessions lb.	Total lb.	
1903–4 ..	12,162,550	69,650	12,232,200	25·28
1904–5 ..	13,436,000	130,200	13,566,200	23·55
1905–6 ..	15,571,950	155,100	15,727,050	25·90
1906–7 ..	14,770,450	555,500	15,325,950	26·91
1907–8 ..	14,967,600	1,101,950	16,069,550	24·82
1908–9 ..	13,448,050	1,610,600	15,058,650	23·65
1909–10 ..	15,519,400	2,745,550	18,264,950	23·76
1910–11 ..	16,369,450	3,730,650	20,100,100	24·82
1911–12 ..	15,511,250	5,416,900	20,928,150	27·82
1912–13 ..	14,068,650	6,482,600	20,551,250	28·12

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TABLE 40—AUSTRIA: Financial Results, 1912 and 1902

(*Reference: Official Report, pp.* 62-79, 91, 98-100)

	1912	1902
Receipts	£	£
Manufactured tobacco sold in Austria	13,606,300	
Customs duties on private imports	29,400	
Sales to associated Monopolies, Navy, Army, and Merchant Marine	30,500	
Export sales	278,300	
Tobacco extract sold (763,600 lb.)	17,250	
Rebates paid by retailers	141,550	
Sundry receipts..	29,150	
	14,132,450	9,161,250
Expenditure		
Expenses, less amount converted to increase of assets	4,567,400	3,525,450
Net Revenue	£9,565,050	£5,635,800
Population	28,814,000	26,535,000
Revenue per head of population (28,814,000) ..	6*s.* 7·7*d.*	4*s.* 3·0*d.*
Revenue per lb. of manufactured tobacco sold ..	2*s.* 2·2*d.*	—
Money spent per head (at retail value) (*a*) ..	10*s.* 5·9*d.*	—
Average retail price per lb. in Austria (*b*) ..	3*s.* 6·4*d.*	2*s.* 5·5*d.*
Consumption per head	2·95 lb.	2·99 lb.

(*a*) Including duties on private imports.

(*b*) Average wholesale prices are compared in Table 47.

TABLE 41 — AUSTRIA: SUMMARY OF EXPENDITURE, 1912

(*Reference: Official Report, p.* 99)

		£
Indigenous leaf bought		946,250
Foreign leaf and manufactures bought		1,904,050
Salaries of managers and officials		136,450
Factory wages		1,215,250
Day payments and odd assistance		4,800
Contribution to sickness and insurance funds		19,650
Sundry bonuses, travelling expenses, etc.		22,600
Commissions to wholesalers		145,550
Manufacturing costs (other than wages)		426,000
New buildings		55,350
Maintenance of buildings		46,750
Freight and transport		176,600
Office expenses		12,050
Sundry expenses		14,700
Total		5,126,050
Less Excess of tobacco stocks during year	£492,200	
Excess of value of buildings, plant	£66,450	
		558,650
Net expenditure		£4,567,450
Per lb. of tobacco sold (87,650,950 lb.) excluding extract		12·50*d.*
Gross expenditure, less total cost of tobacco, and increase in value of buildings, plant, etc.		£2,209,300
Per lb. of tobacco manufactured (90,253,800 lb.)		5·87*d.*
do. raw tobacco used in manufacture (95,124,150 lb.)		5·57*d.*

TABLE 42—AUSTRIA: VALUATION OF CAPITAL AND STOCK IN HAND 1912

(*Reference: Official Report, pp.* 96, 97)

	1st Jan., 1912	31st Dec., 1912	Difference
	£	£	£
Tobacco—finished goods, goods in course of manufacture and leaf ..	5,954,850	6,447,050	+ 492,200
Land and buildings, allowing for depreciation	1,275,250	1,303,200	+ 27,950
Plant and machinery, ditto	300,150	324,450	+ 24,300
Furniture and fittings, ditto	432,750	473,300	+ 40,550
Workshop requisites and materials	199,950	201,000	+ 1,050
Cash due by the Treasury	347,300	319,900	— 27,400
	£8,510,250	£9,068,900	+£558,650
Tobacco Stocks	lb.	lb.	
Foreign leaf	49,103,450	53,383,550	
Indigenous leaf	122,964,600	126,277,350	
Goods in preparation	10,581,550	9,854,450	
Finished goods	14,163,650	17,065,650	
Tobacco extract	102,200	372,950	
	196,915,450	206,953,950	

The data for calculating average stock-taking values per lb. are incomplete; but see p. 143 for average value of all leaf (6.28*d.*).

TABLE 43 — AUSTRIA: PURCHASE OF TOBACCO, 1912

(*Reference: Official Report, p.* 50)

	lbs.	£	Average price per lb.
Home-grown leaf (*a*)—			
Galicia	6,639,650	52,000	2·48*d.*
South Tyrol	896,350	20,600	4·27*d.*
Dalmatia	6,079,750	186,100	7·34*d.*
Hungary	55,139,000	547,400	1·97*d.*
Total	*68,754,750*	*806,100*	2·45*d.*
Imported leaf—			
Fine wrappers	5,702,150	575,650	2*s.* 0·2*d.*
Ordinary wrappers, rollers, fillers	8,949,500	326,750	8·76*d.*
Virginia leaf	3,713,250	118,350	7·65*d.*
Levant leaf	15,954,450	789,600	11·88*d.*
Other sorts, including ribs ..	5,318,250	54,000	2·44*d.*
Total	*39,638,250*	*1,864,350*	11·29*d.*
Total leaf	*107,393,000*	*2,670,450*	5·91*d.*
Imported manufactures—			
Cigars	16,600	17,000	20*s.* 5·1*d.*
Cigarettes	48,000	22,400	9*s.* 3·8*d.*
Cut tobacco	2,950	165	2*s.* 1·3*d.*
Total	*67,550*	*39,665*	11*s.* 9*d.*
Total purchases	107,460,550	£2,710,450	6·05*d.*

The sums stated here as paid out on purchases do not agree with the sums entered in the expenditure account (Table 41). The considerable difference in the case of home-grown leaf is referred to in the text (p. 143).

(*a*) Including freight and transport to the receiving depot and, in the case of Tyrol, the expenditure by the Monopoly on desiccation.

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TABLE 44—AUSTRIA: Particulars of Sales in Austria, 1912

(Reference: Official Report, p. 78)

	lb.	£	Per cent of quantity
Cigars	11,655,000	3,711,300	13·72
Cigarettes	12,941,400	5,531,950	15·23
Cut tobacco	55,115,050	4,083,250	64·87
Roll and twist	2,738,950	115,600	3·22
Snuff	2,511,100	158,300	2·96
Add for cigars and cigarettes in special cartons		6,000	
	84,961,500	£13,606,300	100·00
Austrian-made goods	84,888,300	£13,489,700	99·89
Imported goods	73,200	£116,600	0·09
Private imports (*a*)	18,500	£29,400	0·02
Total consumption	84,980,000	£13,635,700	100·00
Total consumption per head	2·95 lb.		

(*a*) The quantity imported is not returned in the Official Report, but is here estimated from duties paid, at 31*s.* 10*d.* per lb., the average price of imports sold by the Monopoly.

TABLE 45—AUSTRIA: Particulars of Export Sales, 1912

(Reference: Official Report, p. 79)

	lb.	£	Quantity as per cent of total sales
General Exports			
Cigars	373,600	71,900	0·43
Cigarettes	1,459,700	203,650	1·66
Cut tobacco	36,750	5,050	0·04
Snuff	45,550	2,100	0·05
Total for manufactured tobacco	1,915,600	£282,700	2·18
Tobacco extract	478,250	£11,300	
Net value, deducting discounts, etc.		£289,400	
Special Exports			
Manufactured tobacco sold to Navy and Merchant Marine, troops in Bosnia Herzegowina; and Hungarian and Bosnian Herzegowinian Monopolies—net value	295,600	£30,500	
Sum total	2,689,450	£319,900	

TABLE 46—AUSTRIA: SELLING AND COST PRICES OF SALES IN AUSTRIA IN 1912; CUSTOMS TARIFF

(*Reference: Previous Tables and British Official Blue Book of Foreign Import Duties*)

	Average wholesale selling price per lb.	Average cost price per lb.
Austrian-made Goods		
Cigars	6*s.* 3·7*d.*	
Cigarettes	8*s.* 5·6*d.*	
Cut tobacco	1*s.* 5·8*d.*	
Roll and twist	10·1*d.*	
Snuff	1*s.* 3·1*d.*	
All Austrian tobacco	3*s.* 2·2*d.*	1*s.* 0·5*d.*
Imported Manufactured Goods		
Cigars	39*s.* 5*d.*	20*s.* 5*d.*
Cigarettes	29*s.* 9*d.*	9*s.* 4*d.*
Cut tobacco	14*s.* 8*d.*	2*s.* 1*d.*
Austrian and Imported Goods	3*s.* 2·5*d.*	
Customs Tariff on Private Imports		
Cigars, per lb.	13*s.* 3*d.* licence	+5·67*d.* duty
Cigarettes, per lb.	22*s.* 8*d.* do.	+5·67*d.* do.
Other tobacco, per lb.	11*s.* 4*d.* do.	+5·67*d.* do.

TABLE 47—AUSTRIA: AVERAGE SELLING PRICES IN 1912 AS COMPARED WITH 1902

(*Reference: Official Report, pp.* 90–2)

	Wholesale price per lb. in Austria	
	1902	1912
Cigars, all kinds	5*s.* 6*d.*	6*s.* 4*d.*
Cigarettes, all kinds	5*s.* 8*d.*	8*s.* 6*d.*
Cut tobacco, roll and twist	1*s.* 0·5*d.*	1*s.* 5·4*d.*
Snuff	1*s.* 3·0*d.*	1*s.* 3·1*d.*
All goods	2*s.* 2·8*d.*	3*s.* 2·5*d.*

The above comparison according to average is not complete, increase in price having caused displacements in consumption and the relatively greater purchase of cheaper goods, as explained in the text (p. 142-3).

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TABLE 48—AUSTRIA: Demonstration by Price Paid of the Relative Quality of Goods consumed in Austria, 1912

(*Compiled from Official Report, pp.* 62–77)

	lb.	£	Per cent of quantity sold	Average price per lb.(wholesale)
Cheapest Goods				
Cigars retailed at 9*d.* to 4*d.* for 10; cigarettes at 2*d.* and 1*d.* for 10; cut tobacco at less than 1*s.* 1½*d.* per lb.; roll, twist and snuff at 1*s.* 1½*d.* per lb. and less	55,472,700	4,770,750	65·30	1*s.* 8·6*d.*
Medium-priced Goods				
Cigars retailed at 1*s.* and 11*d.* for 10; cigarettes at 4*d.* and 3*d.* for 10; cut tobacco at 2*s.* 5*d.* to 1*s.* 1½*d.* per lb.; roll and twist at 1*s.* 6*d.* per lb.; snuff at 3*s.* to 1*s.* 6*d.* per lb.	19,657,300	4,929,400	23·13	5*s.* 0·2*d.*
Higher-priced Goods				
Cigars retailed at prices exceeding 1*s.* 2*d.* for 10; cigarettes exceeding 5*d.* for 10; cut tobacco exceeding 3*s.* per lb.; all imported goods	9,831,450	3,906,150	11·57	7*s.* 11·3*d.*
Total	84,961,450	13,606,300	100·00	

TABLE 49 — AUSTRIA: EMPLOYMENT AND WAGES IN THE FACTORIES 1912

(*Reference: Official Report, pp.* 16–17, 22–3)

	Number	Wage payment	Average per week
Managers and officials	424	(*a*)	
Doctors	54	(*a*)	
Office personnel, porters, etc.	20	(*a*)	
Superintendents	316	(*a*)	
Foremen	185	£9,850	20*s.* 5*d.*
Ordinary workers—			
Men paid weekly	2,350	£98,750	16*s.* 2*d.*
Men day-labourers (389 casual)	1,195	£30,850	9*s.* 11*d.*
Men piece-workers	1,426	£79,350	21*s.* 4*d.*
Total men	*4,971*	*£208,950*	16*s.* 2*d.*
Women paid weekly	1,852	£68,000	14*s.* 2*d.*
Women day-labourers (613 casual)	1,540	£48,300	12*s.* 0*d.*
Women piece-workers	28,905	£917,350	12*s.* 2*d.*
Total women	*32,297*	*£1,033,650*	12*s.* 4*d.*
Total staff in the factories	38,267		
Ratio of male to female workers	10 to 65		
Employed in cigar making—			
Male workers	326		
Female workers	22,739		
Net wages of foremen and ordinary workers, not allowing for bonuses, etc.		£1,252,450	
Ditto per lb. of tobacco manufactured (90,253,800 lb.)		3·33*d.*	

(*a*) Details of salaries not stated in the Report.

TABLE 50 — AUSTRIA: GOODS PRODUCED AND MATERIALS EMPLOYED IN MANUFACTURE, 1912

(*Reference: Official Report, p.* 51)

	Imported leaf	Per cent	Home-grown leaf	Per cent
	lb.		lb.	
Cigars	12,573,250	85·41	2,150,900	14·59
Cigarettes and cut tobacco	20,205,750	26·51	55,998,450	73·49
Roll and twist	145,750	5·89	2,326,900	94·11
Snuff	830,650	48·50	892,500	51·50
Total	33,755,400	35·49	61,368,750	64·51
Total weight of material used	95,124,150			
Total tobacco manufactured	90,253,800			

APPENDIX 1

TABLE 51—AUSTRIA: Retailers and their Profits, 1912

(*Reference: Official Report, pp.* 118–25)

	Number	Average retail commission
Larger shops (*Haupttrafiken*) for tobacco only ..	3,749	£127 3*s.*
Smaller shops for tobacco only	10,704	£20 9*s.*
Shops with other trade, closed Sundays	26,988	£16 16*s.*
Shops with other trade, open Sundays	28,960	£9 12*s.*
	70,401	
Shops paying rebates on profits—	**Number**	**Total rebates**
In districts with population over 50,000 ..	1,893	£30,800
In districts with population from 10,000 to 50,000	2,861	£26,550
In districts with population from 2,000 to 10,000 ..	9,997	£31,850
In districts with population below 2,000 ..	47,600	£52,550
	62,351	£141,750
Number of retail shops	70,401	
Population per shop	406	
Total commission (10 per cent of retail price) ..	£1,444,750	
Rebates, or profit repayments	141,750	
Net retail profit	£1,303,000	
Average net annual profit per shop	£18 10*s.*	

TABLE 52—JAPAN: COMPARATIVE TOBACCO REVENUES, 1896 TO 1915

(*References: 'The Times' Japan Supplement, July* 19, 1910; *Financial and Economic Annual*, 1914, *pp.* 8, 14)

Year ending March 31	£	Year ending March 31	£
1895-6(*a*)	290,600	1905-6	3,441,900
1896-7	327,100	1906-7	3,336,500
1897-8(*b*)	586,400	1907-8(*e*)	3,749,700
1898-9	470,400	1908-9	5,050,100
1899-1900..	698,600	1909-10	4,840,500
1900-1(*c*)	742,000	1910-11	5,217,300
1901-2	1,113,000	1911-12	5,256,100
1902-3	1,267,000	1912-13	5,698,200
1903-4	1,526,000	1913-14(*f*)	5,503,300
1904-5(*d*)	2,813,000	1914-15(*g*)	4,690,300

(*a*) Under business-tax and revenue-tax system.
(*b*) Leaf Monopoly introduced January, 1898.
(*c*) Monopoly extended to foreign leaf at close of year.
(*d*) Complete Monopoly introduced on July 1, 1904, and retail prices raised by 20 per cent.
(*e*) Retail prices further raised by 30 per cent, December, 1907.
(*f*) Budget estimate.
(*g*) Budget estimate and adjustments in Treasury accounts.

TABLE 53—JAPAN: COMPARISON OF FINANCIAL RESULTS, CONSUMPTION, ETC., IN 1906–7, 1910–11, AND 1912–13

(*Reference: Official Account of the Monopoly System*, 1912, p. 36; *Financial and Economic Annual*, pp. 2. 8. 14)

	1906–7	1910–11	1912–13
Population	48,164,800	50,985,000	52,312,100
Net revenue	£3,336,500	£5,217,300	£5,698,200
Ditto per head	1*s.* 4·6*d.*	2*s.* 0·5*d.*	2*s.* 2·1*d.*
Receipts from sales in Japan	£5,782,200	£7,544,560	(*a*)
Weight of tobacco sold in Japan, lb.	72,596,340	67,725,880(*b*)	74,000,000(*c*)
Consumption per head ..	1·50 lb.	1·33 lb.	1·41 lb.
Average price per lb. ..	1*s.* 7·1*d.*	2*s.* 2·7*d.*	
Net revenue per lb.	11*d.*	1*s.* 6·5*d.*	

(*a*) Particulars are not available.
(*b*) See Table 54.
(*c*) The details of tobacco consumed in 1912–13 are not yet available, and the above is an estimate, arrived at from weight sold in 1910–11 and ratio of net revenue in that year to net revenue in 1912–13; the figure should be approximately correct, as selling prices have remained unaltered.

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TABLE 54 — JAPAN: DETAILS OF MONOPOLY SALES IN JAPAN AND AVERAGE PRICES, 1910–11

(*Reference: Official Account of the Monopoly System*, 1912, p. 36)

	Thousands	Weight (*a*) lb.	Value £	Average price per lb.
Cigars—				
Japanese	922·8	8,120	3,800	9*s.* 4·5*d.*
Imported	1,481·5	13,040	15,730	24*s.* 1·5*d.*
Total	*2,404·3*	*21,160*	*19,530*	18*s.* 5·5*d.*
Cigarettes—				
Japanese, with mouthpieces	4,355,600	9,582,320	1,830,950	3*s.* 9·5*d.*
Japanese, without mouthpieces ..	947,287	2,084,030	420,460	4*s.* 0·4*d.*
Imported	11,932	26,250	24,780	18*s.*10·5*d.*
Total	*5,314,819*	*11,692,600*	*2,276,190*	3*s.*10·8*d.*
Cut tobacco—				
Japanese		55,994,970	5,243,730	1*s.*11·7*d.*
Imported		17,150	5,110	5*s.*11·5*d.*
Total		*56,012,120*	*5,248,840*	1*s.*11·7*d.*
Grand Total		67,725,880	7,544,560	2*s.* 2·7*d.*

(*a*) Weight of cigars and cigarettes is not stated in the Official Account; it is calculated here, from the figure of numbers sold, on the basis of 1,000 cigarettes or 250 cigars to the kilogramme.

TABLE 55—JAPAN: QUANTITY AND VALUE OF EXTERNAL TRADE IN 1912–13

(*Reference: Official Statistics of Trade and Commerce*, 1912 *and* 1913)

	1912		1913	
Imports	lb.	£	lb.	£
Tobacco leaf	2,702,500	97,450	2,090,630	92,700
Other tobacco (*a*)	133,500	19,120	286,000	35,760
	2,836,000		2,376,630	
Average value of leaf per lb. ..		8·65*d.*		10·64*d.*
Exports		£		£
Tobacco leaf	476,900	8,320	471,750	8,660
Cigarettes	302,490	40,930	366,380	45,860
Cut tobacco	66,780	4,480	32,750	2,860
Other tobacco(*b*)	—	—	2,250	200
	846,170		873,130	
Average value of leaf per lb.		4·20*d.*		4·40*d.*
Average value of cigarettes per lb.		2*s.* 8·5*d.*		2*s.* 6*d.*
Average value of cut tobacco do.		1*s.* 4·1*d.*		1*s.* 8·9d.

(*a*) The Official Returns state the value only of 'other tobacco' imported; the weight is calculated here by reference to the average value per lb. of cigarettes exported.

(*b*) Value alone being stated, the weight is calculated here by reference to the average value of cut tobacco exported.

TABLE 56—JAPAN: VALUE OF ANNUAL IMPORT AND EXPORT TOBACCO TRADE, 1902–1913

(*Reference: Financial and Economic Annual*, 1914, *pp.* 100–5)

Year	Imports	Exports	
	Leaf	Cigarettes	Other tobacco
	£	£	£
1902-5 (average)	144,930	252,000	22,300
1906-9 (average)	101,740	177,800	28,140
1910	16,660	86,760	41,950
1911	4,590	71,980	22,750
1912	97,450	40,930	12,800
1913	92,700	45,860	11,720

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TABLE 57—JAPAN: Statistics of Tobacco Cultivation

(Reference: Financial and Economic Annual, 1914, p. 51, Official Account of the Monopoly System. 1912, p. 7)

Year	Area planted	Tobacco paid for	Value of crop	Average value
	acres	lb.	£	per lb.
1905-6 } Average—	79,315	95,127,400	8,365,000	2·11*d.*
1906-7 } 77,626 acres	75,781	101,314,200	10,118,700	2·38*d.*
1907-8 }	77,781	108,146,200	11,877,400	2·63*d.*
1908-9	73,196	87,768,700	10,673,500	2·94*d.*
1909-10	71,966	94,125,800	10,875,300	2·77*d.*
1910-11 } Average—	72,826	91,853,500	9,975,400	2·61*d.*
1911-12 } 70,936 acres	68,005	74,046,600	8,277,700	2·68*d.*
1912-13 }	71,980	94,881,800	13,361,500	3·37*d.*
Average price 1905-6 to 1912-13				*2·68d.*

TABLE 58—JAPAN: Employment and Wages

(Reference: Financial and Economic Annual, 1914, p. 75)

	State factories
Operatives, and apprentices—	
Male	7,468
Female	20,699
Total	28,167
Labourers—	
Male	459
Female	38
Total	497
Ratio of female to 100 male operatives	277
Wages per day—	
Male (over 14 years of age)	1*s.* 1*d.*
Female (over 14 years of age)	6*d.*
Working days per annum	303

TABLE 59—SPAIN: Financial Results, 1913

(Reference: Company Report, p. 24)

	£	£
Receipts		
Sales in Spain (at retail prices)	8,823,850	
Export sales	350	
Customs duties on private imports	20,650	
Sundry receipts	13,550	
		8,858,400
Less Net profit of the Monopoly Company, deducting interest (at 4 per cent)	277,250	
Tobacconists' retail discounts	337,950	
		615,200
Net receipts		8,243,200
Expenditure		
Purchases, salaries, wages, interest, etc.		2,132,150
Revenue to the State (*a*)		£6,111,050
Revenue per head of population (19,750,000) ..		6*s.* 2·2*d.*
Revenue per lb. sold (40,828,600 lb.)		2*s.* 11·9*d.*

(*a*) Made up of £6,097,100 Treasury profits from the Monopoly, and £13,950 taxes on the Company's share capital and dividends (see Table 66).

TABLE 60—SPAIN: Expenditure, 1913

(Reference: Company Report, p. 24)

	£
Purchase of tobacco and cost of making up (*a*)	1,651,350
Expenditure on purchases (exchange, etc.)	23,350
Salaries, fees, commissions, including payment to Treasury representatives	125,550
Contributions to provident funds, etc.	9,150
Freight and transport	96,250
Losses and shortages in returns	16,100
Maintenance, repair, depreciation	26,950
Sundries	30,350
Insurance of buildings and stock	6,350
Fiscal surveillance	74,850
Interest on capital	71,900
	£2,132,150

(*a*) By this is meant the factory cost of the tobacco. The prime cost of tobacco imported in 1913 was £1,003,650 (see Table 61); the difference £647,700 will represent the expenditure on wages and other costs of manufacture, except that probably some of the tobacco bought was in excess of immediate needs in 1913.

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TABLE 61—SPAIN: Tobacco Imports, 1913

(Reference: Import Trade Statistics)

	lb.	£
Unmanufactured tobacco	60,153,200	1,003,650
Manufactured tobacco	162,200	72,750
Prime Costs		
Unmanufactured, per lb.	4·0*d.*	
Manufactured, per lb.	8*s.* 11·6*d.*	

TABLE 62—SPAIN: Sales of Tobacco and Factory Value, 1913

(Reference: Company Report, p. 13)

	Quantity sold lb.	Value of sales £	Factory value £
Spanish Manufactures			
Cigars	5,242,250	1,869,100	403,650
Cigarettes	10,279,750	2,931,900	621,600
Cut tobacco	24,620,800	3,804,850	536,200
Snuff and other	76,200	9,150	1,900
	40,219,000	£8,615,000	£1,563,350
Superior tobacco	8,795,150	3,544,000	720,450
Medium tobacco	2,362,750	454,100	118,150
Common tobacco	29,061,100	4,616,900	724,750
	40,219,000	£8,615,000	£1,563,350
Imported Products ..	163,250	£199,650	£72,765
Contraband Goods ..	42,400	£9,200	£9,200
Private Imports	3,950	£20,650	—
Total consumption, sales and costs	40.828,600	£8,844,500	£1.645,315
Consumption per head ..	2·06 lb.		
Money spent per head ..		8*s.* 11·5*d.*	

TABLE 63—SPAIN: COST (INCLUDING MAKING-UP) AND SELLING PRICES, 1913

(*Reference: Company Report, p.* 13)

	Factory value per lb.	Retail price per lb.
Spanish Manufactures		
Cigars	1*s.* 6·5*d.*	7*s.* 1·5*d.*
Cigarettes	1*s.* 2·5*d.*	5*s.* 8·4*d.*
Cut tobacco	6·0*d.*	3*s.* 1·1*d.*
Snuff and other	6·0*d.*	2*s.* 4·9*d.*
Superior tobacco	1*s.* 7·6*d.*	8*s.* 0·7*d.*
Medium tobacco	1*s.* 0·0*d.*	3*s.* 10·1*d.*
Common tobacco	5·9*d.*	3*s.* 2·1*d.*
General average	9·3*d.*	4*s.* 3·4*d.*
Imported Products	8*s.* 11·6*d.*	24*s.* 5·6*d.*

TABLE 64—SPAIN: PRICES, SALES AND PROFITS IN 1909 COMPARED WITH 1913

(*Reference: Company Reports,* 1909 *and* 1913)

	1909	1913
Superior brands, average price per lb.	6*s.* 11*d.*	8*s.* 1*d.*
Medium brands, average price per lb.	3*s.* 4*d.*	3*s.* 10*d.*
Common brands, average price per lb.	2*s.* 11*d.*	3*s.* 2*d.*
All Spanish products	4*s.* 0*d.*	4*s.* 3*d.*
Spanish products sold, lb.	40,575,250	40,219,000
State Revenue (not including company's taxes)	£5,480,700	£6,097,100
Company's profits and interest, before payment of taxes, etc.,	£426,000	£381,150

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TABLE 65—SPAIN: Staff, Employés and Retailers

(Compiled from the 'Anuario de la Renta de Tobacos', 1914)

	Number
Head office in Madrid	170
District storekeepers, officials, and assistants	1,249
Factory managers and their employés	238
Factory mechanics and overseers (male)	359
Factory overseers (female)	204
Factory tobacco workers (male)	504
Factory tobacco workers (female)	16,847
Warehouse employés	75
Vigilance service	454
Total	20,100
Retailers of tobacco	20,087
Retailers' profits (Table 59)	£337,950
Average profit per shop per annum	£16 16*s.*

TABLE 66—SPAIN: Profit of the Monopoly Company, 1913 (attributable to Tobacco and apart from Stamp Sales and other Receipts)

(Reference: Official Report, pp. 23–6)

	£	£
Commission at 5 per cent of value of sales on basis of previously ruling prices		270,200
Commission at 3·75 per cent of value of increase on selling prices		39,050
		309,250
Less Quota of (*a*) tax on value of shares (1 per 1,000)	4,750	
Quota of (*b*) tax on dividends paid (3·30 per cent)	9,200	
Quota of (*c*) President's fees	800	
Quota of (*d*) contributions to provident funds	9,150	
Quota of (*e*) bonus of profits to Administration and staff (2 per cent)	8,100	
		32,000
		277,250
Add (*f*) interest at 4 per cent on capital, included by the Company in profits		71,900
Dividends, reserve, and carry over		£349,150

In Table 59 'Revenue to the State' includes items (*a*) and (*b*) above; 'Expenditure' includes items (*c*), (*d*), (*e*), and (*f*).

TABLE 67—SWEDEN: PROVISIONAL ESTIMATE OF WEIGHT AND RETAIL VALUE OF TOBACCO TO BE SOLD IN 1915 BY THE TOBACCO MONOPOLY COMPANY; BASED ON CALCULATION OF AVERAGE SALES DURING THE YEARS 1909 TO 1912(*a*)

(*Reference: Proposition No.* 254, 1914, *pp.* 86–91, 174–5)

	Weight		Retail Value	
	1909-12	1915(*b*)	1909-12	1915
Cigars and 'cigar-cigarettes'—	lb.	lb.	£	£
a. Swedish	1,600,000	1,280,000	786,070	628,860
b. Imported	350,650	262,990	265,630	199,220
Increase due to new tariff on *b.*				26,560
				854,640
Cigarettes—				
a. Swedish	483,650	386,920	278,280	222,620
b. Imported	545,800	409,350	375,900	281,930
Increase due to new tariff on *b.*				41,340
				545,890
Cut tobacco—				
a. Swedish	746,500	671,850	62,620	56,360
b. Imported	128,550	96,410	33,550	25,160
Increase due to new tariff on *b.*				2,920
				84,440
Plug, roll, and twist—				
a. Swedish	1,247,350	1,122,620	136,320	122,700
b. Imported	20,000	15,000	3,510	2,630
Increase due to new tariff on *b.*				450
				125,780
Snuff—				
a. Swedish	13,301,900	11,971,710	588,170	529,350
b. Imported	4,400	3,300	650	490
Increase due to new tariff on *b.*				100
				529,940
Total	18,428,800	16,220,150	£2,530,700	£2,140,690
Swedish Goods		15,433,100		£1,559,890
Imported Goods		787,050		£580,800

(*a*) The Monopoly was not enforced until June 1, 1915.

(*b*) Estimated consumption in 1915 was based on estimated figures for the years 1909–12 by diminishing imported goods by 25 per cent, Swedish cigars and cigarettes by 20 per cent, and other Swedish goods by 10 per cent.

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TABLE 68.—SWEDEN: Budget of increased Tobacco Revenues obtainable by the Monopoly, based on Retail Values in 1915

(*Reference: Proposition No.* 254, 1914, *pp.* 86–91; *Report of No.* 3 *Special Committee, p.* 41)

	Retail value	Rate of tax	Revenue
	£	per cent	£
Cigars and 'cigar-cigarettes' ..	854,640	15	128,200
Cigarettes	545,890	20	109,180
Cut tobacco	84,440	10	8,440
Plug, roll, and twist	125,780	10	12,580
Snuff	529,940	15	79,490
Total	£2,140,690		£337,890

(1) The above is the estimate of the Finance Department, made July, 1914, in anticipation of the Monopoly being established in November, 1914. No increased revenue was expected at first from the higher Customs tariff on imported goods, owing to the probable falling off in import trade.

(2) The joint Parliamentary Committee considered that by 1915 sales would not decrease to the extent the Finance Department had reckoned, and figured the additional revenue for the first full year of operation at £383,330; further, when consumption was fully restored, the Monopoly would bring an increase of £400,000, or (adding existing revenues) a total of £737,780 per annum. All these estimates have, however, as explained in the text, been superseded by the fixing, on the eve of the Monopoly coming into force, of considerably higher retail prices, and by the imposition on January 1, 1916, of heavier inland revenue taxes on sales. See Tables 71 and 72.

TABLE 69—SWEDEN: Weight of Raw Tobacco and Weight of Finished Goods made therefrom

(*Reference: Tobacco Taxation Committee,* 1909–11, *Report; Vol. I., p.* 231. Compiled from returns furnished by 83 of the 108 Swedish factories existing in 1908)

	Weight of Raw Tobacco (1)	Weight of Finished Goods (2)	Column (1) as per cent of Column (2)
	lb.	lb.	
Cigars and 'cigar-cigarettes' ..	1,396,730	1,352,270	103·4
Cigarettes	418,430	502,110	83·6
Cut tobacco	666,530	667,700	99·8
Plug, roll and twist	1,084,050	1,344,140	80·7
Snuff	6,668,900	12,283,240	54·3
	10,234,640	16,149,460	
Imported Leaf	8,844,100		
Swedish Leaf	1,390,600		

TABLE 70—SWEDEN: WEIGHT OF RAW MATERIAL REQUIRED IN MAKING UP WEIGHT OF FINISHED GOODS CALCULATED TO BE SOLD IN 1909–12; AND IN 1915 UNDER THE MONOPOLY

(*Reference: Estimate based on Tables 67 and 69*)

	1909–12 Average		1915 Under Monopoly	
	Finished Goods	Raw Material	Finished Goods	Raw Material
	lb.	lb.	lb.	lb.
Cigars and Cigar-cigarettes	1,600,000	1,654,400	1,280,000	1,323,520
Cigarettes	483,650	404,330	386,920	323,450
Cut tobacco	746,500	745,000	671,850	670,500
Plug, roll and twist ..	1,247,350	1,006,610	1,122,620	905,940
Snuff	13,301,900	7,222,930	11,971,710	6,500,630
	17,379,400	11,033,270	15,433,100	9,724,040
Imported goods ..	1,049,400		787,050	
	18,428,800		16,220,150	

TABLE 71—SWEDEN: ESTIMATED REVENUE FROM THE MONOPOLY IN 1916

(*Reference: Proposition Nr.* 112, 1915; *pp.* 10–11; *Statsverksproposition*, 1915, "*Inkomsterna*," *p.* 10)

	Retail value	Inland revenue tax	Total revenue
	£	per cent	£
Cigars and 'cigar-cigarettes'	900,000	15	135,000
Cigarettes	620,000	30	186,000
Cut tobacco	105,000	20	21,000
Plug, roll and twist	125,000	20	25,000
Snuff	665,000	25	166,250
	£2,415,000		533,250
Customs duties—probable yield			337,780
State share of Company's dividend ..			5,560
			£876,590

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TABLE 72—SWEDEN: Estimated Revenue from the Monopoly in 1917

(*Reference: Statsverksproposition*, 1916; *App. B. pp.* 13–17 *and* "*Inkomsterna*," *p.* 14)

	Consumption	Retail value	Inland revenue tax	Total revenue
	lb.	£	per cent	£
Cigars and cigar-cigarettes ..	1,650,000	1,041,670	15	156,250
Cigarettes	1,540,000	1,088,890	30	326,670
Cut tobacco	880,000	162,220	20	32,440
Plug, roll and twist	660,000	133,340	20	26,670
Snuff	12,100,000	916,670	25	229,170
	16,830,000	£3,342,780		771,200
Customs duties—probable yield				337,780
State share of Company's dividend				60,000
				1,168,980

TABLE 73—SWEDEN: AVERAGE PRICES BEFORE AND AFTER THE INTRODUCTION OF THE MONOPOLY

(*References: Table* 67; *Proposition No.* 254, *p.* 92; *Monopoly Company's Report, p.* 10)

	Weight of sales (c)	Value of sales	Average price
	lb.	£	per lb.
Cigars and 'cigar-cigarettes'—			
Average for 1909–12(a) (15%)	1,950,650	893,950	9*s.* 2*d.*
In 1915 (b)	*209,800*	*137,500*	*13s.* 1*d.*
Cigarettes— —			
Average for 1909–12 (a) (17%)	1,029,450	542,970	10*s.* 6*d.*
In 1915 (b)	*267,380*	*188,640*	*14s.* 1*d.*
Cut tobacco—			
Average for 1909-12 (a) (8%) ..	875,050	88,470	2*s.* 0*d.*
In 1915 (b)	*367,600*	*74,200*	*4s.* 0*d.*
Plug, roll and twist—			
Average for 1909–12 (a) (8%)	1,267,350	128,640	2*s.* 0*d.*
In 1915 (b)	*331,640*	*67,800*	*4s.* 1*d.*
Snuff—			
Average for 1909–12 (a) (12%)	13,306,300	518,160	9·3*d.*
In 1915 (b)	*5,274,870*	*409,200*	*1s.* 6·6*d.*

(*a*) Deducting from the figures in Table 67 the value of the so-called rebates formerly allowed by retailers to consumers. The percentage figures in brackets represent the value of these rebates as estimated by the Tobacco Taxation Committee.

(*b*) The Monopoly Company's sales in the seven months, June—December.

(*c*) The Monopoly Company's report returns only the number of cigars, etc., and cigarettes sold; the above weights for these goods are calculated at 250 and 1000 respectively to the kilogramme, the ratio given in *Statsverksproposition*, 1916, App. B., p. 16.

APPENDIX II

The Regulation and Supervision of Tobacco Growing under the French State Tobacco Monopoly

(Translated from the Twelfth Edition (1911) of *Les Impôts en France*, by J. Caillaux, French Ex-Minister of Finance; and printed with permission of the author).

The growing of tobacco in France is governed by an annual decree of the Minister of Finance and by two Prefectoral decrees in each of the Departments where cultivation is authorized.

The Ministerial decree declares in which districts cultivation is authorized, the area that may be planted in each district, the number of plants to be grown on each plantation, and the prices to be paid for the crop.

The scale of prices is fixed in each Department according to six classes. The first three classes apply to the varieties called 'saleable tobaccos' ('*tabacs marchands*'), the second three classes to those kinds called 'non-saleable tobaccos' ('*tabacs non marchands*'). In the Departments where the lighter varieties of tobacco are grown, only the fine light and combustible tobaccos are considered 'saleable'. The rough common tobaccos, produced from degenerate plants, which are not combustible, as well as those which have suffered damage on the plantation or in the drying room, are classed as 'non-saleable tobaccos'. The distinction between 'saleable' and 'non-saleable' tobacco owes its origin to the use to which the leaves can be put.

The object of the first Prefectoral decree, issued subsequently to the Ministerial decree, is simply to publish the declaration forms by which permission is obtained to cultivate tobacco, and to fix the date when the declarations are to be made as well as the days and hours when the declarations of the planters will be received (in presence of the Mayors) by the officials who superintend cultivation; it is then also that the quantity of tobacco to be produced is made known.

The declaring parties have to appear in person, or if they are not able to do so they must be represented by a mandatory, holding a proxy in due form. The declarations have to state the place of residence of the cultivator, the situation and area of the land, and the number of plants to be planted. The cultivators are bound to prove by authentic papers that they are the proprietors or the farmers of the land thus declared. If they should not be able to prove their solvency by producing the last notice of the tax collector, they will have to provide security as a guarantee for the fulfilment of their obligations.

The second Prefectoral decree, called the 'cultivation order', is made by the Council of the Prefecture, in consultation with two of the principal planters of each district and of the head of the cultivation staff. It contains the general regulations governing cultivation; fixes the date at which the transplanting, topping, and lopping must be finished; states the rules to be followed when the inventory is made; and stipulates generally and in detail all the formalities and directions to be observed, from receipt of the permit to cultivate until the crop has been delivered.

The general directions governing cultivation may be grouped under the four heads as follows:—

(1) The formalities to be observed in connection with the permits to grow tobacco;
(2) The supervision of the cultivation properly so called;
(3) The inventories;
(4) The delivery of the crop.

1. PERMITS TO CULTIVATE

The declaration lists are received by the cultivation officials at the Town Halls and are sent, with the testimonials, to commissions which meet in the chief towns of the Prefecture or sub-Prefecture during the second fortnight of January. These commissions are composed of the Prefect or his delegate, as president; the Director or sub-Director of Indirect Taxes; the chief of the cultivation staff; a member of the General Council; and a member of the Council of the district. The last two members, being nominated by the respective Councils, must reside in the district; they must not be planters.

Permits to cultivate are only given in respect of land of an area of not less than 10 *ares* (equivalent to 1 rood), of which at least five must be held by the same tenant. The commissions decide as to the acceptance, the rejection, and the limitation of the declarations. They may reject or reduce the applications of those applicants (1) who have not shown their right to be called proprietors or farmers, or have not proved their solvency, or have not provided the necessary security; (2) the nature of whose land is not favourable to the production of good tobacco, or whose means and appliances for cultivation and drying are not satisfactory; (3) who have for the previous three normal years obtained for their crop an average price less by from 10 to 20 per cent than the average for the district; (4) against whom a charge of contravening the law or the regulations has been preferred leading to magisterial or administrative proceedings. There is no appeal against the decision of the commissions.

The permits to cultivate were formerly granted only to those who cultivated in person. Since 1872 the proprietors of plots of land have been allowed, subject to the consent of the Administration, to hand the permits over to farmers; but if the farmer is a man who pays rent only in kind, the proprietor remains personally and jointly responsible for any breach of the regulations. The permits to cultivate, after having been granted by the commissions, are sent

to the planters by the Mayors, who are also to inform the interested parties of any total or partial prohibitions that may have been issued against them.

2. SUPERVISION OF THE CULTIVATION

The operations of the planters are controlled by the cultivation officials under the conditions laid down in the Prefectoral decree. Throughout the duration of the cultivation, the officials have to pay frequent and surprise visits to the planters in their district, for the purpose of advising them as to the way in which they are to perform the different operations, as well as to supervise the strict execution of the regulations. They have especially to ascertain whether the transplanting of the young plants is done with due regard to the prescribed spacing; that it is finished on the date fixed by the decree; that by such date the unused plants have been destroyed; that there are no double or twin plants on the plantation; and that the reserve plants (for replacing those likely to perish) are only cultivated to the extent allowed. The officials supervise the topping, lopping and removal of the buds, and are empowered to take action, by administrative or judicial proceedings, against all infringements of the regulations or of the law.

The planters are bound to conduct the officials over the land under tobacco; to assist them in their work; to admit the legality of any action they have been duly invited to attend; and to give the officials access to their houses, stores, and drying rooms at any time between the hours of sunrise and sunset.

3. INVENTORIES

There are two sets of operations connected with the inventory of tobaccos in the stalk—the first to ascertain the extent of the area under cultivation and the number of plants planted, the second to ascertain the number of leaves to be taken over to the account of each planter.

The first part of the inventories commences between July 1 and July 15. The Mayors are informed of it a week in advance and are invited to be present at the operations, or to send a representative. They appoint a guide, generally the keeper, whose duty it is to accompany the officials. The plots of land are measured with a meter measure. Then the total number of plants is estimated either by finding the average by counting a number of rows varying with the greater or lesser regularity of the plantations, or by counting, one by one, the plants which do not stand in regular squares. Any excess of more than one-fifth, either of the declared area or of the number of plants that ought to be there in accordance with the regulation density, offers cause for instituting legal proceedings. A deficiency of more than a quarter renders the cultivator liable to be disqualified from cultivation in the following year.

The second part of the inventory is the counting of the leaves. If the topping and lopping have been done in a uniform manner over the whole extent of the land, all that is necessary is to multiply

the number of plants by the number of leaves left on each plant. In any other case the number of plants is multiplied by the average obtained by counting the leaves of several plants on different parts of the land. The verifications, which take place when the leaves are counted, are completed by a rough classification, and this facilitates the rejection at the time of delivery of any leaves which do not agree with the classification made at the time of these visits to the grounds.

The result of the first as well as of the second part of the inventory is embodied in two distinct records which are entered in a pocket-book and are numbered and initialled by a Justice of the Peace. These records must be signed by the Mayor and by the respective cultivators. In case of a refusal by the latter to sign, such refusal is recorded.

An extract of the record which concerns him is sent to each planter, or in his absence to the Mayor, who shall forward it to the planter concerned without delay. In the case of a dispute over the result of the inventory, the matter is referred to the sub-Prefect, who shall, if necessary, appoint experts. The planters are allowed a week dating from the delivery of a record of inventory to lodge an appeal at the Town Hall for an independent verification. The costs of the investigation by the experts have to be borne by the party whose estimate was furthest from the final result. As soon as the inventory is closed, and until accounts are verified, the planters are responsible to the Administration for the number of leaves entered in the books of the officials. During the whole of this period any damage to the crop must be reported within twenty-four hours to the Mayor's office under penalty of being compelled to accept full responsibility for damage. The damage will then be ascertained and valued amicably by the cultivation officials in the presence of the Mayor or of his delegate. In the case of disagreement the valuation will be made by experts in the form prescribed for disputes in respect of inventories.

4. DELIVERY OF THE CROP

The operations in connection with the delivery are preceded by a third Prefectoral decree, which is issued at the instance of the chief of the cultivation service. This decree determines the procedure for receiving the crop and fixes the time for taking delivery in rotation, from the different communes, and from the planters in each commune. It determines also the proportion per 100 of the leaves which may be allowed for waste, in order to cover losses and breakages resulting from the handling of the leaves.

The receipt and classification of the crop are performed by a commission of experts, composed of two agents of the Administration of the State Factories and three experts appointed by the Prefect. These three experts are sworn before the sub-Prefect. They must not be planters on their own account, nor be interested in any way in the cultivation.

The duties of the commission of experts commence, generally, at the beginning of January with a summons to twelve planters of

the district, chosen from those who have the best crops. From these, specimen samples are taken in order to classify the leaves handed in by the other growers according to one of the categories fixed by the Ministerial decree. One of the sample leaves is sent to the factory of Reuilly at Paris in order to be examined by a special commission, whose opinion is passed on to the warehouse-keepers. As soon as the sampling is finished the planters are called before the commission one by one. The tobacco is taken from the drying-room to the warehouse and delivered against a pass from the receiving clerk. The receiving of each crop includes the examination of the number of leaves represented, the classification, and the weighing of the bales.

The numbering of the bales; the counting of the bundles in each of them; and the checking of the number of leaves in the bundles enable the authorities, as soon as the crop reaches the warehouse, to judge whether the tobaccos in hand are in conformity with those that have been previously agreed upon. Each bale is afterwards submitted to expert examination and classed in one of the categories established by the Ministerial decree.

The Commissioners decide whether a premium shall be granted for first-class tobacco. They decide also as to deductions leviable on account of excess of moisture, admixture of foreign matter, or excess of butts. They are to reject and cause those leaves which are unfit for manufacturing to be destroyed, according to prescribed procedure. As soon as the classification is finished, the weighing of the bales is proceeded with. The weight is written on a prominent label, entered in a special note book kept by one of the three experts not connected with the Administration, and witnessed by an official of the *Régie*.

APPENDIX III

Reported Cases of Smuggling in France

(Taken from the files of the Journal *Le Tabac*, 1913-14)

At Cysoing a customs officer and a keeper (garde champêtre) were caught loading with contraband tobacco a waggon close to the frontier and destined for the interior. They were prosecuted by the public prosecutor. (April, 1913.)

Fifty sacks of tobacco were seized at Lloret-de-Mar after a fight with the smugglers, one of whom was killed. (April, 1913.)

Customs officers near Trélon (Nord) close to the Belgian frontier discovered a motor car laden with tobacco, and after giving chase, seized the contraband, which was valued at 18,000 francs. (April, 1913.)

On 6th July, 1913, an inspector of the Indirect Taxes Administration arrested, at the Nord Station (Paris), a traveller from Brussels who had two trunks packed with cigars and cigarettes. (August, 1913.)

Inspector of the Indirect Taxes Administration found 30,000 contraband cigars in a house in the Rue Popincourt, Paris. Fraisse, the chief of the band of smugglers, confessed he had in one year brought into Paris, without paying any duty, 300,000 cigars de luxe, purchased direct from Havana and imported via Antwerp. (November, 1913.)

An official of the Octroi at Montpelier discovered in certain boxes 2,800 cigars de luxe which were contraband. (December, 1913.)

Sacks containing 6,000 packets of Belgian tobacco were discovered by a customs official at Feignies in a waggon ostensibly laden with potatoes. (January, 1914.)

660 lb. of Belgian tobacco were seized in the Bourget Station as contraband. (March, 1914.)

3,300 lb. of smuggled tobacco were found in a pinnace at Loivre (Marne). (April, 1914.)

APPENDIX IV

THE TOBACCO MONOPOLY IN FRANCE

(Extract from *Where and Why Public Ownership has Failed*, by M. Yves Guyot, American Edition, 1914; The Macmillan Company, New York—Reprinted with permission of the Publishers.)

It is customary to speak of the results of the tobacco monopoly in France, in force since 1811, as marvellous.

The income appears truly enormous. In 1815 it was 32,123,000 francs; in 1830, 46,782,000 francs; in 1850, 88,915,000 francs; in 1869, 197,210,000 francs; in 1890, 305,918,000 francs; in 1900, 338,872,000 francs; in 1910, 407,330,000 francs.

Without doubt this is a dazzling result from the fiscal point of view, and it also proves that the number of Frenchmen who use tobacco has increased more rapidly than the population.

But there are other ways for a government to make money out of tobacco than by monopolizing the sale of it. In 1908–1909 the United Kingdom realized £13,328,000 upon tobacco, that is to say 333,450,000 francs, or only 74,000,000 francs ($14,060,000) less than our monopoly has yielded us.

We see what this monopoly has contributed to the Treasury; but we do not see the losses occasioned by it to French agriculture and industry. It is a privilege to be allowed to cultivate tobacco. I have heard a deputy say: "I will guarantee that not a single one of my political adversaries will cultivate one acre of tobacco." Possibly he was boasting; but that a deputy could use such language is sufficient to prove just how far official authority is capable of being abused.

In any case there are only 27 districts permitted to cultivate tobacco, and these districts are situated in all parts of France, from the North to Landes, from Ile-et-Vilaine to the Var. Therefore, climatic reasons have not determined these concessions, which, as a matter of fact, are wholly dependent upon politics. The number of hectares authorized was 17,955 (44,880 acres) in 1909, and 18,005 hectares (45,000 acres) in 1910. In the first year mentioned 15,037 hectares (37,593 acres) out of a possible 17,955 hectares (44,880 acres), and in the second year, 14,683 hectares (36,708 acres) out of a possible 18,005 hectares (45,000 acres) were cultivated. The number of licenses was, respectively, 48,395 and 47,283.

The quantity of tobacco bought was 23,134,000 kg. (50,894,800 lb.) in 1909, averaging 23,122,000 francs, and, in 1910, 21,034,000 kg. (46,274,800 lb.), averaging 22,085,000 francs.

	Fr.	C.
Value of domestic tobacco estimated at	23,226,874	33
Foreign tobacco at	31,825,437	95
Algerian tobacco at	2,038,054	85
Confiscated tobacco taken from dealers	144,772	15
	57,235,139	28

But let us look at the monopoly from a somewhat different standpoint. To-day we may buy scaferlati. Scaferlati is a raw product. Consequently you may imagine that you have the right to use it to manufacture cigarettes. In fact the Court of Cassation [1] has made a ruling to that effect. Nothing of the kind. The department of Indirect Taxes (Administration des Contributions Indirectes) intervenes, and says to you: "You, a simple individual, cannot manufacture cigarettes, because I have reserved for myself a monopoly of this article."

The rival claims of the various parties interested in the sale of tobacco became the subject of a lively discussion between the tobacco monopoly and the Court of Cassation. The Finance Law of 1895 finally put an end to the altercation by justifying the exorbitant pretensions of the monopoly. It decided that, although you can make cigarettes for your own personal use with the tobacco that you buy from the government, you have not the right to sell these cigarettes to your neighbor.

On September 17 and 18, 1903, there was another altogether edifying discussion—this time in the Senate—upon the manner in which the state treats the consumer. Certain senators were anxious to prevent the French smoker from smoking anything but the national tobacco. The Minister of Finance, M. Rouvier, opposed this restriction, but at the same time he proceeded to demonstrate how cavalierly the state may treat the consumer who has no other source of appeal:

In 1900, he declared, ordinary scaferlati had been composed of 52 per cent. native tobacco and 48 per cent. foreign tobacco. In 1901 the proportion was changed to 54 per cent. native tobacco and 46 per cent. foreign tobacco. The consumption decreased 40,000 kg. (88,000 lb.).

What would a private company have done under similar circumstances? It would have restored the former proportion, as a matter of course.

What did the government do? It increased the proportion of native tobacco.

In 1902 scaferlati was composed of 63 per cent. native tobacco and 37 per cent. foreign tobacco.

"The number of complaints increased," added the minister placidly.

But what did the minister do about it? Was any attempt made to satisfy the consumer? Did the department restore the previous proportions? Not at all. The consumer was induced to see the error of his complaints in another way. Smokers had gradually abandoned the degenerate scaferlati for Maryland tobacco. Therefore, the government conceived the happy idea of increasing the price of Maryland tobacco. That would teach the smoker to be content with the government tobacco. Strange that MM. Gomot and Ournac should discover that this proportion of native tobacco was still unsatisfactory!

[1] The highest judicial court of France.

The example quoted above only serves to prove once more the truth of the following general law:

Under conditions of free competition the producer has more need of the consumer than the consumer of the producer, and it is necessary that the latter give the former the maximum of service at a minimum cost. Under monopolistic conditions the consumer is obliged to submit to the exigencies of the producer.

If the consumer wishes to retaliate he has no other recourse than that species of strike called abstention, which for him spells privation. As the case of the Maryland tobacco proves, the smoker cannot even resort to substituting one product for another. If he makes the attempt he is penalized. . . . But now let us suppose that this monopoly on tobacco in France did not exist. We French are extremely skilful in raising products of a refined savor, and we know how to prepare them in the most attractive manner. Let us imagine, then, that the cultivation and sale of tobacco were free. There would be tens of thousands of hectares under cnltivation in those districts where the soil is best adapted for it. We would see manufacturers experimenting with skilful blends of native and foreign tobaccos suitable for exportation. We would see in the great cities large and imposing shops for the sale of tobacco like those seen abroad.

The department boasts of the excellence of its products. The foreigner does not share this opinion, because exportation is almost nil—3,547,000 francs ($673,930) in 1910. Yet attempts are made to export the home product, because included in the above figure is the sum of 83,718 francs ($15,906) for commissions paid to special export agents.

If the monopoly contributes 405,000,000 francs ($76,950,000) to the government on the one hand, it is certainly causing a loss of many hundreds of millions annually to French agriculture, industry and commerce on the other hand. . . . The tobacco monopoly bought nearly 32,000,000 francs ($6,080,000) of tobacco abroad in 1910. Tobacco experts visit the places of production, meet at Bremen, and buy tobacco. They are prepared for the business by the Polytechnic Institute. It is the easier for me to say what I am about to say since the probity of these agents has never been brought into question. But what control can be exercised by any legislative body over the millions of francs' worth of tobacco which thus passes from one hand to another? What possible chance is there of fixing individual responsibility?

In fact it cannot be too strongly asserted that *legislators have yet to discover how to interfere effectively in trading operations carried on by the state.*

Book II, Chapter XIX, pp. 194–201.

* * * * *

In 1908 the popular brands of tobacco gave out.[1] Why?

[1] See *Le Client.*

When a good business man sees his business increasing he is careful to devote a part of his profits to the improvement of his methods of production. The Tobacco department was able to show, in 1902, 421,000,000 francs in gross receipts; in 1903, 435,000,000; in 1904, 448,000,000 francs. But the general budget was short. It therefore absorbed the whole sum, instead of setting something aside to improve the equipment of this special fiscal monopoly. Just at this time, and when the consumption of tobacco was steadily increasing, the working hours of the laborers in the tobacco factories were reduced from 10 to 9. As a result, there was a 10 per cent. loss of production. The equipment was in no position to offset this labor loss; hence the deficiency.

In 1905 the department obtained some hundreds of thousands of francs from the budgets of 1906 and 1907, to improve its equipment and factory buildings. These appropriations, however, were tardy and insufficient.

I do not mean to imply that the officials of the Tobacco department had not foreseen the necessity for this work, but there was no way of forcing the minister of Finance to grant them the necessary loans in time to be of service. Administrative delays are notorious and individuals who rebel against them are sternly taught their place.

Book III, Chapter III, pp. 289–290.

* * * * *

In 1906, during several weeks, if not several months, the situation of the smoker, as described by *Le Journal*,[1] was about as follows:

"Yesterday, as I entered a tobacco shop, a customer was asking for a 70-centime green package of cigarettes.

"'We haven't any,' answered the dealer.

"'Then give me a pink package at the same price.'

"'We are out of those, too.'

"The astonished customer glanced at the luxurious fittings of this large shop on the Boulevard and inquired:

"'How do you happen to be out of the most popular brands?'

"'Because the supply in the warehouse from which we order our tobacco is not large enough to meet the demand. One day it is one kind and another day another which I am refused,' added the clerk, shaking her head.

"As an actual fact, when one kind of tobacco or cigarettes is manufactured in a district, the warehouses and their customers, the retailers in that particular district, must go without all the other brands.

"'I don't know where all this will end,' continued the clerk. 'First customers complain, then they become angry, and we can do nothing about it. And yet it is too bad to lose a sale through the fault of the manufacturer!'

[1] July 30, 1906.

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The article terminates thus:

"Many deceptions are complained of, such as cigarettes which unwrap the moment they are lighted, over-moist tobacco, etc. The inequality in the weight of the packages is especially astonishing.

"One retailer weighed a certain number of packages of ordinary tobacco costing 50 centimes. Instead of the regulation weight of 40 grams, from 32 to 35 grams were found. It is only fair to add, however, that there were a few weighing 50 grams. The purchase of a 10-sou package, therefore, becomes a sort of lottery. This state of affairs occurs, it seems, because there is not time to weigh the packages in those pretty little patent scales which are so successful at world expositions, but of which there are altogether too few in the tobacco factories."

Five years after the above article was written I read in the *Figaro* of August 20, 1912:

"We mentioned day before yesterday the case of a user of 'mild tobacco' from whom was demanded the sum of 1 franc for a certain green package which bore, on the label, 80 *centimes*. 'That is the old label,' was the scornful answer to the remonstrance of the customer.

"The self-sufficiency of the state as a merchant, and especially a tobacco merchant, is manifested in a number of other ways. One of our subscribers, a well-known business man, from the district of the Seine writes us:

"'I am a smoker (unfortunately), but I can only smoke Maryland, which comes wrapped in yellow paper at 1 franc for 40 grams. For some time now I have been losing three packages out of five because the majority of the packages of Maryland contain *caporal superieur*, a tobacco so strong that I cannot smoke it. In addition to the total loss of the package, which I give away to people who can endure this tobacco, I am cheated in regard to the price, since a package of *caporal superieur* is sold for only 80 centimes when it comes in blue packages, and, therefore, I am paying 1 franc for the same tobacco in a yellow wrapper.'

"'If, by chance, I get packages which really contain Maryland, I never get the same tobacco. Sometimes it is light, sometimes it is brown, often it is as black as the ace of spades.

"'I can show you packages of Maryland which contain nothing but *caporal*. . . .'"

"What merchant would dare to use his customers in such a way?" asks *Figaro*.

No private merchant, certainly, because the dealer who calls down upon himself the wrath of his customers is certain to be ruined. The government, however, can well afford to disregard its customer, the public, whom the tobacco monopoly has placed in its power.

Sometimes, as in the case that I have just quoted, there is more than mere disregard of a customer, there is downright cheating as to the quality of the merchandise sold. Such an act would expose a private individual to civil damages and even severer penalties. A government can commit such an offense with impunity, for it does not consider that it is under any obligation to the consumer.

Book III, Chapter VI, pp. 351–3.

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